CANADA AT RISK ?

Canadian Public Policy in the 1990s

Edited by
G. Bruce Doern
and
Bryne B. Purchase

C.D. Howe Institute

C.D. Howe Institute

The C.D. Howe Institute is an independent, nonprofit, research and educational institution. Its goals are to identify current and emerging economic and social policy issues facing Canadians; to analyze options for public- and private-sector responses; to recommend, where appropriate, particular policy options that, in the Institute's view, best serve the national interest; and to communicate the conclusions of its research to a domestic and international audience in a clear, nonpartisan way. While its focus is national and international, the Institute recognizes that each of Canada's regions may have a particular perspective on policy issues and different concepts of what should be national priorities.

The Institute was created in 1973 by a merger of the Private Planning Association of Canada (PPAC) and the C.D. Howe Memorial Foundation. The PPAC, formed in 1958 by business and labor leaders, undertook research and educational activities on economic policy issues. The Foundation was created in 1961 to memorialize the late Rt. Hon. Clarence Decatur Howe, who served Canada as Minister of Trade and Commerce, among other elected capacities, between 1935 and 1957. The Foundation became a separate entity in 1981.

The Institute encourages participation in and support of its activities from business, organized labor, associations, the professions, and interested individuals. For further information, please contact the Institute's Membership Coordinator.

Adam H. Zimmerman is Chairman, and Thomas E. Kierans is President and Chief Executive Officer. The Institute's offices are located at: 125 Adelaide Street East, Toronto, Ontario M5C 1L7 (tel.: 416- 865-1904; fax: 416-865-1866); and P.O. Box 1621, Station "M", Calgary, Alberta T2P 2L7 (tel.: 403-233-8044).

Canada at Risk?

Canadian Public Policy in the 1990s

edited by

G. Bruce Doern
and
Bryne B. Purchase

Policy Study 13
C.D. Howe Institute

91-01951/

C.D. Howe Institute publications are available from:

Renouf Publishing Company Limited, 1294 Algoma Road,
Ottawa, Ontario K1B 3W8; phone (613) 741-4333; fax (613) 741-5439

and from Renouf's stores at:

61 Sparks Street, Ottawa (613) 238-8985
211 Yonge Street, Toronto (416) 363-3171

For trade book orders, please contact:

McGraw-Hill Ryerson Limited, 330 Progress Avenue,
Scarborough, Ontario M1P 2Z5; phone (416) 293-1911

Institute publications are also available in microform from:

Micromedia Limited, 158 Pearl Street. Toronto, Ontario M5H 1L3

This book is printed on partially recycled paper.

Canadian Cataloguing in Publication Data

Main entry under title:

Canada at risk? : Canadian public policy in the 1990s

(Policy study, ISSN 0832-7912 ; 13)
Proceedings of the conference, The way we will be: a public policy conference for journalists, held in Niagara-on-the-Lake, Ont., Apr. 23–24, 1990.
Includes bibliographical references.
ISBN 0-88806-259-1

1. Political planning – Canada – Congresses. 2. Policy sciences – Congresses. 3. Canada – Politics and government – 1984– – Congresses*
I. Doern, G. Bruce, 1942– . II. Purchase, Bryne Brock, 1944– .
III. C.D. Howe Institute. IV. Series: Policy study (C.D. Howe Institute); no. 13.

JL108.C35 1990 320'.6'0971 C91-093073-2

© C.D. Howe Institute, Toronto and Calgary.
Quotation with appropriate credit is permissible.
Printed in Canada, January 1991.

Contents

Foreword v

1 **Whither Ottawa?**
by *G. Bruce Doern and Bryne B. Purchase* 1

PART I: THE POLICY SETTING IN THE 1990s

2 **Demographics: The Human Landscape for Public Policy**, by *David K. Foot* 25

3 **Globalization and the Canadian Nation-State**, by *Richard Simeon* 46

4 **Effecting Change: Do We Have the Political System to Get Us Where We Want to Go?** by *Robert A. Young* 59

5 **The Hollowing Out of North America: Myth or Fact?** by *Robert Z. Lawrence* 81

6 **How Much Government Is Good Government?** by *Ian A. Stewart* 91

7 **Social Regulation and Environmental-Economic Reconciliation**, by *G. Bruce Doern* 100

8 **Canada at Risk**, by *Richard Gwyn* 116

PART II: POLICY FIELDS

9 **Toward the Reintegration of Social and Economic Policy**, by *Thomas J. Courchene* 125

10 **Investing in People: A Policy Agenda for the 1990s**, by *Harvey Lazar* 149

11 Cultural Policy and the State, by *David McQueen* 168

12 The Challenge for Universities, by *George Pedersen* 179

13 Science and Technology Policy, by *John S. MacDonald* 194

14 Financial Services and Government Intervention, by *William D. Coleman* 203

15 Environmental Policy in the 1990s, by *Robert Paehlke* 214

16 Health Care: Is the System Sick? by *Robert Evans* 224

The Contributors 245

Participants in "The Way We Will Be: A Public Policy Conference for Journalists," Niagara-on-the-Lake, Ont., April 23–24, 1990 249

Members of the C.D. Howe Institute 251

Foreword

Canada is at a critical juncture. Domestic and international cross-currents are tearing at the fabric of our most fundamental institutions and values. The policies and institutional structures of the past may not be wholly appropriate for the challenges ahead.

With this in mind, the C.D. Howe Institute held a two-day conference in April 1990 on "The Way We Will Be." The conference brought together some of Canada's most respected public policy experts, journalists, and media commentators. The papers in this volume were among the conference's background presentations on some of the major public policy issues that will confront Canadians in the 1990s. The title, *Canada at Risk?*, was borrowed from Richard Gwyn's remarks as rapporteur. While the conference was held before the failure of the Meech Lake Accord, in most ways the discussions presaged the basic challenges for the modern nation-state and, therefore, many of the fundamental issues underlying the current concern for Canada's constitutional future.

The conference was organized by Angela Ferrante, a journalist and the Institute's Chief Administrative Officer. The editors, Bruce Doern and Bryne Purchase, participated in the conference and also contributed the introductory chapter of the book. Bruce Doern is a Scholar-in-Residence at the Institute and Professor of Public Policy at the School of Public Administration, Carleton University. Bryne Purchase is a Senior Policy Analyst at the Institute and former Chief Economist of the Province of Ontario. The book was copy edited and prepared for publication by Barry A. Norris. As with all C.D. Howe Institute publications, the analysis and views presented here are the responsibility of the authors and do not necessarily reflect the opinions of the Institute's members or Board of Directors.

Thomas E. Kierans
President

Whither Ottawa?

1

G. Bruce Doern
and
Bryne B. Purchase

This book examines whether Canada is at risk. It assesses the current and future role of the federal government at a time when there is an unprecedented sense of malaise about the Canadian body politic. The past few months have not witnessed Canada at its best. But even the more specific question posed by this chapter — "whither Ottawa?" — is one that immediately begs a series of related questions as the 1990s begin. What has economic globalization done to the efficacy of the Canadian nation state? What is the real underlying relationship between economic and social policy? What role does Ottawa need to perform well in order to promote a viable political community and a competitive economy? Where do the provinces fit in? If institutions need to be realigned, how can this be fostered in a democratic context?

Clearly, these questions imply no small agenda. The papers in this book were first presented at a conference of journalists held in April 1990 and sponsored by the C.D. Howe Institute. There, the agenda was the more general one of exploring "where we will be" in the 1990s. But, as assembled here, the papers require a look at a broader set of issues of significance for Canada's future. The papers involve two basic kinds of analysis. Those in Part 1 deal with broad, crosscutting issues and parameters that shape and reflect the overall conduct of Canadian public policy. Those in Part 2 deal with several

important policy fields by looking back over the 1980s and earlier and projecting developments into the 1990s.

The purpose of this chapter is to guide the reader through the papers by exploring the questions posed above. Where appropriate, we also bring to bear other literature and developments in policy fields not otherwise covered here.

The Analytical Imperatives

Exploring Canada's political and policy environment as the confusing and uncertain year of 1990 draws to a close requires an understanding at three analytical levels: the rhetorical and symbolic level; the temporal level — that is, the particular post–free trade, post–Meech Lake, and even post–Cold War world in which Canadian public policy has to operate; and the level of ongoing actions in several important policy fields. All three are valid in different ways, and each must be looked at separately and in combination to obtain a realistic sense of where Canada has journeyed in the past decade and where the battered national ship of state may be or ought to be steering in the 1990s. All three levels are also essential in locating oneself along the continuum of optimism and pessimism, that peculiar political space in which each of us judges whether the Canadian glass is half full or half empty.

The Rhetorical and Symbolic Level

In the age of mass-media politics, public policy invariably is debated first at the level of rhetorical and symbolic discourse.[1] This rhetoric is politically very real, but it also creates enormous gaps between what is said in the name of public policy and what is actually happening. Half-truths and half-realities become the currency of policy debate. The decade of the 1980s, for example, has been

1 See G. Bruce Doern and Richard Phidd, *Canadian Public Policy: Ideas, Structure, Process* (Toronto: Methuen, 1983).

labelled rhetorically as the age of deregulation, privatization, and capitalism triumphant. This may be true to some extent, but does the full public policy record in Canada support this thesis?

Consider, too, the debate on social policy. Rhetorical politics suggests the demise of universal social programs. But, as we suggest later, ongoing actions, mainly through tax reform, are beginning to yield something that looks increasingly like a guaranteed annual income in Canada — the quintessential universal program.

The Temporal Level: Free Trade, Meech Lake, and Eastern Europe

The second analytical level of particular immediate importance is the juncture in 1989–90 of three events that have produced a deep political depression and sense of exhaustion in the Canadian political psyche. These events are the free trade debate, the Meech Lake debacle, and the contrasting euphoria unleased by the revolution of hope and freedom in eastern Europe, and in Europe as a whole.

The decision on free trade was a triumph for the Progressive Conservative government and for the business community. But for a significant portion of the Canadian political community that had historically defined the national interest in less market-oriented ways, the outcome of the free trade debate was disheartening.[2] The political exhaustion caused by the debate was then merely exacerbated by the even more debilitating argument over the Meech Lake Accord. The political coalitions for and against free trade and Meech Lake were certainly not identical, but in both cases significant portions of the Canadian political community felt badly let down by democratic politics.

The combined effects of these two large political events coincided roughly, but also very starkly, with the euphoria surrounding the historical changes in eastern Europe. Canadians saw this phenom-

2 See G. Bruce Doern and Brian W. Tomlin, *Faith and Fear: The Free Trade Story* (forthcoming).

enon as the triumph of democracy and hope just as domestic politics seemed to be divisive, unproductive, and symbolically uninspiring.

While free trade and Meech Lake are portrayed here only in terms of their combined symbolic effects in the 1989–90 period, the two have an importance that has never been fully debated or discussed, either by the Canadian public or by the government that spawned them. This importance arises from their *combined* directional effects.[3] The Canada-U.S. Free Trade Agreement lessens national governing powers in favor of markets, while the Meech Lake Accord, on balance, would have lessened national powers in favor of the provinces. While the federal government obviously wanted both initiatives to occur separately, there is no evidence that it ever systematically considered their combined effects. Free trade and Meech Lake followed separate policy trails when, in fact, both beg questions about what kinds of powers and roles governments in the modern Canadian nation-state require in the 1990s.

The Level of Ongoing Policy Actions

The third analytical level is that embraced by the world of ongoing actions in numerous policy fields, which compels a kind of practical stocktaking of things actually done, taxes imposed, spending programs launched or cancelled, regulations reduced and expanded, and institutions established or re-energized. This level does not escape rhetorical politics, nor is it unscathed by the temporal juncture of events described above. Inherently, however, it forces a more practical reckoning of the real underbelly of the body politic.

The Central Questions

Our guide through the analyses in Parts 1 and 2 is based on the basic questions posed at the outset of this chapter. These are

3 See Harvey Lithwick and Allan Maslove, "The Sum of the Parts: Free Trade and Meech Lake," in Katherine Graham, ed., *How Ottawa Spends 1989–90* (Ottawa: Carleton University Press, 1989), pp. 25–52.

discussed in the three remaining sections, but a quick preliminary look at them may help to set the scene.

The first question concerns economic globalization, the pace of which has been bewildering.[4] What effects has it had on the nation-state? Is a new "sorting out" of relationships between states and markets occurring? Has government been shrinking while markets grow? Or has a realignment of governing and market functions begun to occur?

The second question deals with the rhetorical and practical characterization of the relationship between economic and social policy.[5] The conventional business and economic view is that markets create wealth, which society can then redistribute. In this sense, markets and good economic policy are the engines that power social policy. But to what extent is this true? What does the evidence from numerous policy fields tell us about this, as opposed to the conventional rhetorical labels that are attached to this relationship?

The answers to these first two questions are essential precursors to the question: "Whither Ottawa?" How we see states and markets and how we visualize our economic and social selves will help us deal more intelligently with the current and future role of the federal government and the political prospects for the country as a whole.

Globalization and the Canadian Nation-State

As the catchphrase of the late 1980s, "globalization" certainly evoked an underlying economic dynamic that is both real and compelling. The pace of the international division of production — almost oblivious to national boundaries — has been astonishing. In Chapter 5, Robert Lawrence shows the common continental shifts that

4 See Stephen Gill and David Law, *The Global Political Economy* (London: Wheatsheaf, 1988).

5 See Michael Hill and Glen Bramley, *Analysing Social Policy* (Oxford: Blackwell, 1986).

have occurred in the composition of output and employment, and argues convincingly that North America has not "hollowed out" or "deindustrialised", when one considers underlying competitiveness, productivity, and the proportion of gross national product produced through goods manufacturing. Harvey Lazar focuses in Chapter 10 on the employment side of the equation, and shows that it is increasingly being divided between good jobs and bad jobs. Lazar evokes concern because of his implication that globalization has some serious adverse social consequences.

The image and reality of a kind of globalization juggernaut has been greatly reinforced by a revolution in the underlying technologies of production. Computers and telecommunications innovations have transformed the world in ways that are starkly evident to the average consumer and worker. The sense of inevitability about this process has been aided and abetted by the political success of a neoconservative ideology — personified by Ronald Reagan and Margaret Thatcher — which called for, and in some areas achieved, a diminution of the role of government.[6]

In fact, however, the extent and character of globalization has been much more uneven than its rhetorical image conveys. As William Coleman shows in Chapter 14, for example, the quintessential globalizer of the 1980s was without doubt the financial services sector.[7] But the lightning speed with which financial capital can move about the globe merely contributes to the perception that human capital is becoming even more immobile and threatened. Political pressure is then naturally put on the nation-state — in short, on the one social institution that is territorial and immobile as well.

Although none of the chapters in the book deals with this point, there is one segment of the labor force that is physically and psychologically more mobile and, hence, more global in its outlook as well: those professional white-collar workers — "yuppies" — who

6 See, for example, Desmond S. King, *The New Right* (London: Macmillan, 1987).

7 "Capital Markets: Stormy Past, Stormy Future," *The Economist*, July 21, 1990, pp. 5–28.

see themselves as working and as "in demand" in the western world as a whole. They travel and communicate across the globe and bring perspectives to bear that are also global in nature and frequently less sympathetic to narrower national aspirations or criteria.

It is not clear, however, that trade in goods can be characterized as inevitably globalizing in the past few years. For example, many countries put in place strong protectionist measures in the 1980s.[8] It is certainly the case that Canada's interest in a free trade agreement with the United States was propelled more by a fear of growing protectionism than it was by a belief in the virtue of free markets *per se*.[9] In this context, more globalization took place in the 1960s than in the 1980s, and — to provide a sense of history — even more occurred in the 1880s and 1890s, at a time of an even greater exponential growth in trade.

Focusing unduly on economic globalization also significantly underplays the growth of international political institutions to complement and to react against unfettered markets. There is clearly something natural and cyclical in these developments and counterdevelopments. For example, the burst of international institution building in the postwar era that resulted in the United Nations, the General Agreement on Tariffs and Trade (GATT), the World Bank, and the International Monetary Fund was in part forged from memories of war and the Great Depression. Expanded international institutions went hand in hand with a desire for expanded markets and political stability.

Some of the excesses of free markets in the financial services sector have already resulted, as Coleman shows quite concretely, in a significant expansion of state supervision. This arises out of normal fiduciary concerns — as is evident in the U.S. savings and loan debacle. But it also arises from the fact that the ability of funds to move rapidly can be instantly destabilizing for key sectors of an

---

8 See Alan M. Rugman and Andrew D.M. Anderson, *Administered Protection in America* (London: Croom Helm, 1987).

9 See Doern and Tomlin, *Faith and Fear.*

economy or for views of economic confidence. This is not to argue that the new or emerging institutions are fully shaped, but it is possible to argue that a new burst of international institution building is likely in the 1990s.

One must also not underestimate the globalization of political movements and policy networks. Environmental groups have extensive international networks that are increasingly engaged in advocating international protocols. The European Community's "social charter" reflects strong pressure from European labor unions and social policy coalitions.

Given this uncertainty about the intensity of globalization, it is little wonder that this book's contributors evince a range of opinion about its impact on the Canadian nation-state. Richard Simeon, for example, is quite pessimistic, particularly since he sees globalization, the free trade agreement, and the post–Meech Lake mood as all contributing to a weakening of national institutions and resolve. He has little confidence in the political robustness of Canada's social coalitions or nation-building alliances.

In a somewhat milder way, Richard Gwyn also sees Canadians as having lost their sense of living in a postwar comfort zone. No longer do Canadians see themselves as a socially progressive political entity hitched to the postwar era's most dynamic economy. The center of gravity has shifted, and uncertainty has greatly increased. A sense of being "at risk" pervades the Canadian psyche to a degree perhaps unknown since the Great Depression.

Robert Young's analysis of politics in the 1980s reveals a partial contrast to these views. He shows that, contrary to the supposed triumph of special-interest and regional politics and an absence of decisive action, the late 1980s displayed the federal government's capacity for leadership. He cites free trade, tax reform — including the goods and services tax — and even an attempt at constitutional reform as revealing quite the opposite of a meek Ottawa. He stresses that, as national projects, some of these changes weaken Ottawa, but his main point is to put to rest any notion that federal politics in the 1980s meant business as usual.

The Dynamics of Economic and Social Policy

To ask questions about the practical relationship between economic and social policy is in many ways the same thing as addressing the relationships between globalization, the nation-state, and the counterpressure to build new or renewed international institutions. It is similar in that private capital — and capitalism as an economic system — is inherently global or nonterritorial. Nation-states, however, are inherently territorial; they tend to be tugged in a social direction, and are under pressure to ameliorate the excessive adverse consequences on their citizens of international competitiveness. Nation-states are also, as Simeon rightly stresses, institutions through which people engage in democratic political life — a social condition and value coveted for its own sake, not just as an adjunct to economic prosperity.

Both Tom Courchene and Ian Stewart provide a standard survey of the history of Canadian social policy, which is portrayed as consisting of two types of development. The first type is seen as part of the overall postwar Keynesian consensus. It is thus a mixture of stabilization, mild redistributive justice, and efficiency. Some of this policy array became associated with "universality" — that is, the notion that major social programs should be available to everyone — and thus promoted a sense of common social citizenship. This occurred even though most social program components were not in themselves universal.

The second type of social policy development was more avowedly territorial, in the sense that it was intended to foster east-west interregional links in order to offset or lessen north-south pressures. At the heart of this element of social policy were equalization payments and, to some extent, regional policy grants and programs.

Sometimes lumped with the former and sometimes obliquely defined as outside the realm of social policy was an array of other social or quasi-social programs dealing with education, training, and unemployment insurance. Usually left out of these classic historical

summaries of social policy, at least until the 1980s, was the array of social regulatory programs that Bruce Doern briefly profiles in Chapter 7.

By the mid-1980s, a number of studies began to identify the main shortcomings of the social welfare state.[10] It was increasingly pockmarked with disincentives to work and to efficiency. Traditional welfare and regional programs were creating syndromes of dependency. It was expensive, yet insufficiently targeted to those most in need. Many people thus argued for an end to universality and entitlements. The metaphor for social policy shifted from that of a "safety net" to that of a "trampoline".[11]

In the economic and social policy communities, and in the population as a whole, arguments broke out over universality, an organizing principle that had never been a wholly accurate label for Canadian social policy. Those who saw social programs as nation-building tools evoked various kinds of metaphorical comparisons with medicare. Meech Lake and free trade, they argued, would mean that never again could a federal government launch a national project such as medicare. Therefore, future social programs such as day care or dental care would not be able to evoke the sense of national achievement and belonging that was evident in the heyday of social policy citizenship in the mid-1960s.

If this is an accurate, albeit stylized, account of social policy history and debate to the mid-1980s, what of the period since? Do the contributors to this book supply any clues to further development or to likely future trends? Courchene's chapter locates Canadian social policy in the context of the Free Trade Agreement and the impact of possible actions under the Charter of Rights and Freedoms. On the former, he sees a fundamental long-term incompatibility between increased north-south trade and east-west equalization

10 See, for example, Canada, Royal Commission on the Economic Union and Development Prospects for Canada, *Report*, vol. 2 (Ottawa: Supply and Services Canada, 1985).

11 Canada, Advisory Council on Adjustment, *Adjusting to Win* (Ottawa: Supply and Services Canada, 1989).

measures. Both Courchene and Simeon see the harmonization of continental social policy as inexorable. At the same time, Courchene sees continuous and potentially erratic pressure being applied on governments by groups using the Charter and the courts to increase funding of their own particular agenda of social measures.

To Courchene's scenario must be added David Foot's comments on demographic forces. One of his themes is that governments never quite get their policies to match the demographics; instead, they devise policies to deal with a demographic cohort that has since passed into its next phase. Nonetheless, there is enough demographic evidence — an aging population, the growing incidence of single-parent families, and a significantly reduced rate of growth in the labor force, to name but a few realities — to appreciate that social and economic policy in the 1990s and beyond must be based on quite different assumptions than was the case in the 1960s.

Consider also Stewart's linkage of the relationships between infrastructure policies and investments by the state and the efficiency of the economy. Indeed, Stewart rightly argues that the importance of the positive relationship between the supply of public goods, including equity, and an efficient economy has been badly neglected by the ascendant classical economics paradigm.

A further increasingly important part of the economic and social policy equation is found in the chapters by Doern, Coleman, and Robert Paehlke. Doern indicates the existence of two tendencies in the 1980s in the relationship between economic and social regulation. Economic regulation refers to "vertical" sector-specific rules intended to influence entry, price, and output. Social regulation refers to "horizontal" multisector rules intended to influence health, safety, and fairness, including the environment. In the former, evidence of deregulation has been considerable, with some of the expected benefits for competitiveness.[12] In the latter, regulation has expanded in areas where the state ought to be the lead player and

12 See Alfred E. Kahn, "Deregulation: Looking Backward and Looking Forward," *Yale Journal on Regulation* 7 (Summer 1990): 325–354.

where there is wide public support for such policies. This represents not a net contraction of the state but a realignment, and a sensible one at that. It is now a key part of the social policy milieu of the 1990s.

Coleman and Paehlke outline similar tendencies in their respective policy sectors. As noted above, the deregulation of financial markets has already begun to spawn expanded social regulation and supervision to promote greater honesty, fairness, and probity in financial markets. These forces are not yet in the ascendant, but they are likely to become a concern in the 1990s as a natural social reaction to some of the excesses of the marketplace. Paehlke predicts an expansion of environmental regulation, but he also argues for a greater use of nonregulatory or market measures if the environment and the economy are to become more reconciled in the 1990s.

These analyses suggest that, while the postwar, Keynesian social-economic policy consensus has broken down to some extent, no alternative consensus has emerged to replace it. In part, this is because of the classic "chicken-and-egg" quandaries presented by the relationship between economic and social policy, especially for quick, short-hand debate in mass-media-driven politics. In the current heyday of classical economics and business-driven agendas, it is too often assumed that markets alone create the wealth that states can later redistribute — that social policy is a residual of economic policy. The notion that social policy also contributes significantly to efficiency is given short shrift. This is likely to change in the 1990s as the social policy constituencies mobilize after a decade or more of being on the intellectual and political defensive.

It is increasingly likely, for example, that social policy programs will be sold politically not only as equity issues *per se* but even more prominently as economic necessities in order to retain workers or to compete with other countries. In the United States, medicare is already being pushed in this way, its advocates citing the superior social efficiency of Canadian-style social health insurance so fully documented in Chapter 16 by Robert Evans. Day care is another candidate for this economic-social policy merger of rationales.

As a further indication of the gap between the rhetoric of policy debate and what is in fact happening, consider the case of the guaranteed annual income and the debate about the supposed demise of universality. The Macdonald Royal Commission's 1985 recommendations for a guaranteed annual income, which it saw as the quintessential universal program — available to everyone but then taxed back according to income level — have received little overt support in the period since. Meanwhile, Ottawa seems to have moved stealthily — through the child tax credit, the sales tax credit, and a general tax reform which converted tax deductions to credits — toward a goal that looks more and more like a guaranteed annual income in all but name.[13] And all the while, the rhetorical debate increasingly has pronounced the death of universality!

This is not to argue that a guaranteed annual income has in fact been wholly achieved. Rather, it is to point out the wide gap that often exists between rhetoric and reality. As we outline in the next section, we are far less gloomy about the prospects for further social policy progress in the wake of globalization. In part, this is because we think new political constituencies will mobilize in the 1990s, and because the social and "national project" issues of the 1990s cannot simply be viewed as a sequel to the 1960s, any more than the issues of the 1960s were a sequel to the 1930s.

Ottawa's Role

"Whither Ottawa" is, of course, a play on words. Will the federal government's power, authority, and influence be sharply and absolutely reduced? Or is the issue of Ottawa's future merely one of finding new directions or a new national agenda? Or will the future be a combination of both? It is important to distinguish the differences. And in the chapters that follow, one can find a little of both.

---

13 See Allan Maslove, "The Goods and Services Tax: Lessons from Tax Reform," in Katherine Graham, ed., *How Ottawa Spends 1990–91* (Ottawa: Carleton University Press, 1990), pp. 27–48.

A Federal-Provincial Power Struggle?

Postulating an absolute decline in the authority of the federal government requires an explanation of the context of such a decline. For those who are tempted to think in terms of a federal-provincial power struggle, Ottawa's "withering" may not be a triumph of the provinces. It may not be a contest in which the forces of decentralized government win out over those of centralized public authority. The withering of the Canadian nation-state might simply be part of a more profound disillusionment with the abilities of all governments to deliver on many of their postwar promises. The appropriate question, therefore, might be: "Whither the state?"

In this context, the provinces do not win what the federal government loses; instead, they are equally under attack for relevance and efficiency. There are enough references in this volume to the problems in health, education, and welfare — primary areas of provincial responsibility — to suggest that any re-examination of the federal government inevitably would force a new look at the provinces as efficient providers of public services. Indeed, the contributors to thi s volume, as often as not, address the larger issue of the role of government in the global economy, rather than the role of the federal government *per se*.

As institutions, all governments have competitors for allegiance, for a sense of democratic participation, and for the provision of public goods. These include not only other levels of government but also private corporations, households, families, cooperatives, and non-profit organizations. Indeed, it is this collective competitive challenge to government from nongovernmental institutions that, in the end, may produce a higher degree of federal-provincial harmony and coordination. Governments have very good reasons to get along. In other contexts, one might call it collusion.

Perhaps it is typical of this country to define a crisis for government as a uniquely Canadian thing. Then again, government is very much a part of the way in which Canadians define themselves. Unfortunately, some people will wish to cast the post–Meech Lake

debate as primarily a federal-provincial struggle for power, fuelled by all the good and bad images that centralized versus decentralized authority can conjure up. Meanwhile, Canadians may just have to wait for what works, democratically and efficiently. Our point is that the post-Meech malaise is not simply discontent with Ottawa; rather, it reflects a more general concern about the efficiency, openness, and responsiveness of all governments.

Ottawa's Unique Problems

Nevertheless, try as one might to generalize its condition, Ottawa's problems are unique in some respects. The postwar conceptions of, and consensus about, Ottawa's role in the economy have been sharply undermined. The return to the pre–Great Depression world of the global economy — but with an even greater degree of mutual dependence coupled with an acceleration of the speed with which this interdependence is manifest — has put additional pressure on the federal government.

As several of this book's contributors argue, the Canada-U.S. Free Trade Agreement accentuates the north-south reorientation of the Canadian economy. The extent of this trend is a matter of legitimate debate, however, since it was already under way before the Agreement was negotiated. Indeed, in terms of tariff reductions and plant rationalization for transnational corporations, the 1965 auto pact may have done more to tie the Canadian and U.S. economies together.

While one may debate the specific merits of the Free Trade Agreement, a north-south economic reorientation has a number of implications for the traditional role of the federal government in the economy. In the tradable goods and services sector, it tends to undermine the political consensus around regional redistribution and development — which is a constitutionally vital function of the federal government. One should not, however, overestimate the importance of this. It depends on the notion that regional redistri-

bution had no basis other than as a form of tied aid. This may be only partly true.

In the case of energy policy, the incentive for consuming provinces to support subsidies for energy megaprojects in other parts of Canada is clearly being undermined by the Agreement. (Ironically, the Agreement explicitly allows such subsidies.) While these projects were considered regional development, they also provided the possibility of preferred status to Canadian consumers in times of crisis. This is less the case now.

An important part of the philosophy of postwar Ottawa — indeed, of all western nation-states — was that Keynesian fiscal and monetary policy would stabilize national output, employment, and prices. It was this confidence in the efficacy of macroeconomic policy that facilitated the return to the pre-Depression dynamism of a globalizing international economy. It is now a widely and increasingly accepted view — if not exactly conventional wisdom —that this Keynesian consensus broke down in the 1970s and met its final demise in the 1980s. Federal monetary policy is now hamstrung by the exigencies of global finance and by stable trading and exchange relationships. Federal fiscal policy had already lost some of its ability to stabilize the national economy long before its huge deficit sapped its capacity, or at least its willingness, even to try.

To mention the fiscal situation is to raise perhaps the overriding weakness of Ottawa's position. The scale of the problem sets it apart as one with unique political dimensions. But it is a largely self-inflicted wound. It is not a constitutional problem, yet it is clearly a very serious political weakness, and one that undermines Ottawa's power with respect to the provinces. Giving central direction without central financing has obvious and immediate limits.

Moreover, the way in which Ottawa chooses to resolve the fiscal crisis will determine its relative power in the future. If it cuts back transfers to the provinces sufficiently to force a major expansion in provincial taxes, it will be the loser in the long run — it will become an even less significant force in the economy. It must maintain its share of the tax base if it is to maintain its practical share of political

power. It is no longer politically easy to do so, however. If timing is everything in life, it is certainly not less so in politics. Ottawa may have simply waited too long to get its fiscal house in order.

New Directions?

Whatever might be said in the negative, Ottawa's problems are largely those of rebalancing governments and markets. The journalists who participated in the C.D. Howe Institute's conference, "The Way We Will Be", did not feel pessimistic about the future of the Canadian people or their government. Indeed, they saw a continuing, important role for government. That role is to be found in the social needs embedded in Canada's changing social and demographic profile. It is to be found equally in the new challenges that a truly competitive global economy will throw at us. Still, a continuing, important role for government does not mean that government will not diminish to some extent, nor does it indicate a precise role for the federal government.

Globalization of the economy effectively means a high degree of international mobility of goods, capital, corporations, technology, and highly qualified people. The more mobility, the more options private economic actors possess. Nation-states can provide public goods effectively because they have a comparative advantage in being able to coerce democratically and legitimately and to restrict private behavior to minimize "free riding". Globalization reduces that capacity. Capital is the first to free itself, either as financial capital or in transnational corporate form. Inevitably, there is pressure on government to harmonize tax and regulatory policies.

But before one delivers the nation-state's eulogy, one should not underestimate the reverse implication of globalization. There is also an enormous incentive for governments to collude — to sign international agreements or to restrict market access to those who provide similar public goods at similar levels — for example, in the environment. The global expansion of private markets has not diminished the known weaknesses and failings of those markets; in some cases,

it has merely outgrown the capacity of existing political structures to deal with them. From one perspective, there may be no less need for government, but it may well be a need for forms not yet developed or only just developing. Ottawa will have a key role in developing and maintaining the linkages to these new supranational institutions.

Participation in the global economy inevitably requires the sacrifice of sovereign discretion to international rules. But this is not a condition unique to Ottawa. It is a reality for all national governments. Trade policy becomes fixed by international agreement, although the monitoring and administration of the rules is itself a huge governmental function. Losses in nominal sovereignty may also produce gains in actual policy capacity through joint international and social effort. In a world of big-power interests, Canadians are better served by the rule of international law than by the unfettered sovereign law of the jungle.

We have not outlined in detail all the new roles, challenges, and horizons of government. Perhaps the old challenges are still sufficiently awesome and far from being achieved that it is not readily apparent what new perspectives are required. Yet national political leadership, if it is to be reasserted, must develop a shared political vision. Richard Gwyn notes the absence of such a vision in Canada, particularly relative to Europe's post-communist euphoria. Canadians have not yet bought into the kind of vision of North America or the Western Hemisphere that seems to appeal so much to Americans. Yet, for Ottawa, the challenge of creating a new political vision, even if of old problems, is essential, at least to maintain its current share of national income and national commitment.

One need not despair that, in practical terms, Ottawa has plenty to do in the 1990s and beyond. Environmental policy, social policy, education, technology, training, social infrastructure, and arts and culture are all areas where federal powers exist that should be defended and used to the full. Yet, we doubt that "national projects" in any of these fields will look like the fabled medicare-style initiatives of the 1960s. Each new policy issue can be expected to call forth unique new approaches to deal with different problems.

Day care, for example, is not at all like medicare in terms of the values and concerns its evokes. It is not an issue that can be resolved by agreement about minimum national standards. It is about the nurturing of very young people and thus is partly analogous to education. This is profoundly different from the care of adults in hospitals and doctors' offices, and triggers a different array of values. Thus, how day care is delivered and what universal standards mean are far more problematical. Projects, in the sense of desired national achievements, can still be national, but most are likely to be more diverse than medicare. This will be true if for no other reason than that the degree of involvement by organized interest groups is far greater in the 1990s than it was in the 1960s, so that a greater array of values will be brought to bear on any given potential national day-care project.

Environmental policy is another example where the sheer scope and physical paths of many hazards demand concurrent federal and provincial leadership. The federal role in international protocols will also escalate greatly, but so also will highly localized hazards and problems.

Conclusion

While the task of defining and communicating new allegiances to a national political community will occur in the post–Meech Lake period, more decentralized alternatives will also be debated. For example, Quebec has begun a process of defining what it means by sovereignty. But beyond the constitutional trough of the summer of 1990, beyond the rhetoric and symbols, and beyond the possible need for a new way to amend the Constitution, what is the actual situation in which Ottawa finds itself? A huge fiscal crisis — to a far greater extent than free trade or the Meech Lake debacle — has immobilized it. This crisis has combined with two more general factors — the increased international mobility of goods, technology, and capital, and competition from nongovernmental institutions — to increase pressures on the federal government. But does this

suggest the need for radical constitutional change? It is difficult to see why it should, if that means rebalancing federal-provincial powers. After all, with the possible exception of the financial crisis, the provinces are as subject to these pressures as is the federal government.

Moreover, there is a very good chance that Ottawa's current malaise is temporary or cyclical. This is important, because we should be quite certain that we are witnessing fundamental structural shifts in the preferences for levels of government. The federal government must certainly defend its existing powers. Indeed, circumstances may arise in the future in which Canadians require an even stronger and more active central government. But the decision to make structural changes should carry the burden of considering the possibilities and the consequences of being wrong. Structural change, by which we mean constitutional change, may not be necessary to accommodate long-cycle shifts in preferences for centralized or decentralized government.

Even the preference for supranational institutions — especially as exemplified by the GATT, but more recently and engagingly by European integration — may not be permanent. After all, the Great Depression brought to a crunching halt the nineteenth-century experiment with creating a global economy. In the end, we will have to see what the future brings. Historically, however, flexibility and adaptability have been central features of political institutions that survive and prosper and earn the allegiance of their citizens.

References

Canada. Advisory Council on Adjustment. *Adjusting to Win*. Ottawa: Supply and Services Canada, 1989.

———. Royal Commission on the Economic Union and Development Prospects for Canada. *Report*, 3 v. Ottawa: Supply and Services Canada, 1985.

"Capital Markets: Stormy Past, Stormy Future," *The Economist*, July 21, 1990.

Doern, G. Bruce, and Richard Phidd. *Canadian Public Policy: Ideas, Structure, Process*. Toronto: Methuen, 1983.

———, and Brian W. Tomlin. *Faith and Fear: The Free Trade Story*. Forthcoming.

Gill, Stephen, and David Law. *The Global Political Economy*. London: Wheatsheaf, 1988.

Hill, Michael, and Glen Bramley. *Analysing Social Policy*. Oxford: Blackwell, 1986.

Kahn, Alfred E. "Deregulation: Looking Backward and Looking Forward," *Yale Journal on Regulation* 7 (Summer 1990).

King, Desmond S. *The New Right*. London: Macmillan, 1987.

Lithwick, Harvey, and Allan Maslove. "The Sum of the Parts: Free Trade and Meech Lake." In *How Ottawa Spends 1989–90*, edited by Katherine Graham. Ottawa: Carleton University Press, 1989.

Maslove, Allan. "The Goods and Services Tax: Lessons from Tax Reform." In *How Ottawa Spends 1990–91*, edited by Katherine Graham. Ottawa: Carleton University Press, 1990.

Rugman, Alan M., and Andrew D.M. Anderson. *Administered Protection in America*. London: Croom Helm, 1987.

PART I

The Policy Setting in the 1990s

2 Demographics: The Human Landscape for Public Policy

David K. Foot

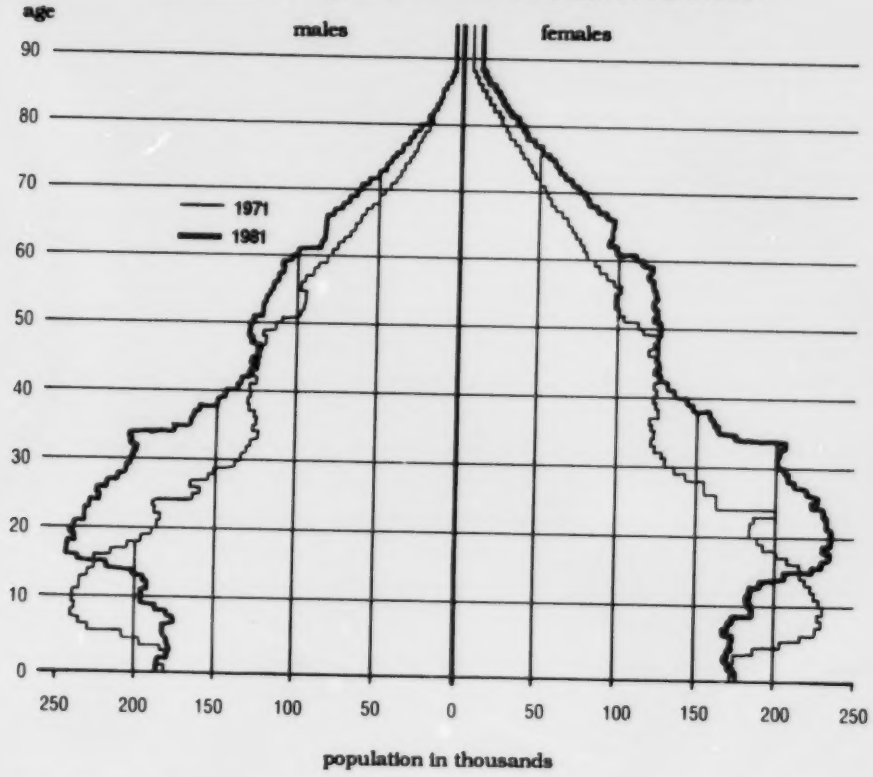
The purpose of this chapter is to explore some of the dynamics between demographics, the economy, and public policy. The first part of the chapter sets out the foundations of Canadian demographics. It then discusses people as customers, or people as client groups. This is the marketing side of demographics — where demand is likely to be in the economy, and what sorts of issues are going to be raised by those demands. The third part looks at people as employees — the human resource implications of demographics. In my view, these aspects are going to dominate in the 1990s. Many Canadian corporations are beginning to realize that the number of recruitable young people is declining. They are also finding it increasingly difficult to retain employees in their late thirties, many of whom become dissatisfied with the way they are being looked after in their organizations.

Demographic Foundations

The place to start is with some basic historical facts. Figure 1 shows the results of the Canadian population censuses for 1971 and 1981. This "population pyramid" is a summary of the composition of the Canadian population by age and gender. It is pyramidal in shape because, quite naturally, as people get older they face the higher

Figure 1

Population by Age and Gender, Canada, 1971 and 1981



Source: Statistics Canada.

probability of dying, so that there are fewer alive in the older age groups than in the younger groups.

The first thing to notice is that, by 1971, the base of the pyramid was beginning to fall in. There were far fewer births during the late 1960s than earlier in that decade. This is the reason for the proliferation of "help wanted" signs in so many retail stores in the late 1980s. Demographers knew this would happen back in 1971. Subsequently, when I predicted that there would be labor shortages in

Canada, people laughed. They are not laughing any more. Recruiting is becoming a major problem now, as we knew it would be almost two decades ago.

The second major point to be gleaned from the figure is that every year we get one year older. This is not a trite observation; it is the foundation for everything that follows in this chapter. Look at the population distribution in 1981, and then note where it was in 1971. Surprisingly, it has moved up exactly ten years! Now you know where it will be in 1991, in 2001, and beyond.

Next, look at the results of the most recent census, taken in 1986 (Figure 2). Between 1981 and 1986, the population pyramid has moved up another five years. What are the major characteristics of the Canadian population as they were measured in this census? The most dominant feature is the "baby boom" generation. In Canada, there should be no doubt where the baby boom started. In 1986, the first baby boomers were all aged 39, meaning that they were born in 1947. Now, in 1990, they are 43. This observation needs to be kept firmly in mind in order to understand Canadian demographics.

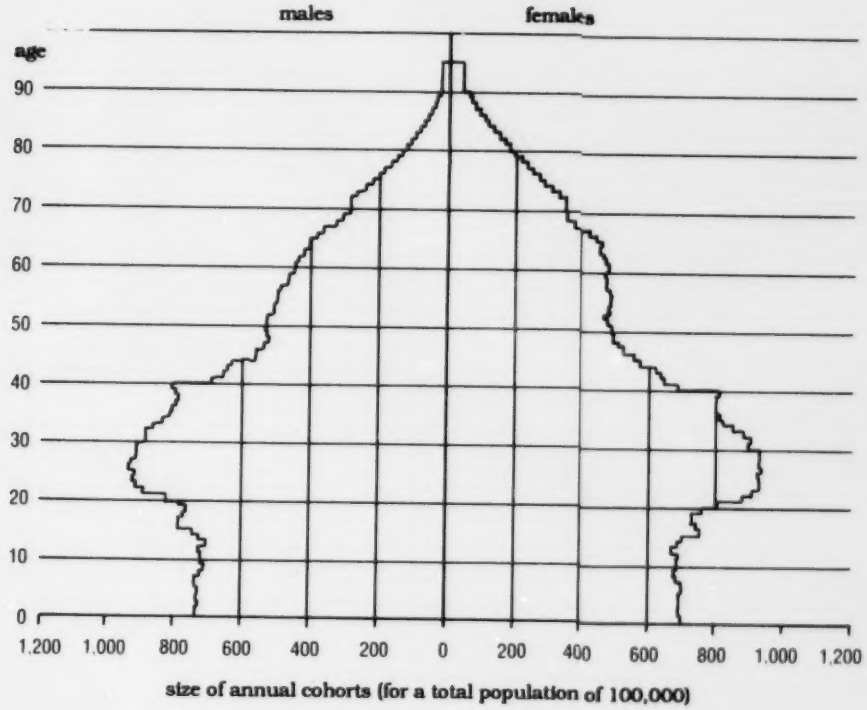
From 1947 on, the number of births steadily increased, peaking around 1960. By 1966, the baby boom can be said to have ended. The result of this boom is a generation of Canadians, born between 1947 and 1966, who are now aged 24 to 43. This is the group that has driven much of Canada's public- and private-sector policy over the past 20 or 30 years and will continue to do so in the years ahead. For example, it is this group that currently is driving the booming housing market.

After the baby boom generation comes what I refer to as the "baby bust" generation, as the number of births declined dramatically after the mid-1960s and through the 1970s, reaching a trough around 1980. The implications of this phenomenon are considerable, but as a minor example, anyone with young children today knows how difficult it is to find a 15-year-old baby sitter.

Since the beginning of the 1980s, however, the base of the population pyramid has not continued to collapse; rather, it has been expanding again. The reason for this is not increased fertility, but

Figure 2

Population by Age and Gender, Canada, 1986



Source: Statistics Canada.

simply the fact that female baby boomers are now in their prime child-bearing years. Even though, on average, they are having fewer children, there are so many more of them giving birth that there are more children being born. This is the so-called echo generation.

In summary, then, the most important characteristics of the Canadian population are the baby boom generation, born between 1947 and 1966; the baby bust generation, born between 1966 and 1980; and the echo generation of the 1980s, who are the children of the baby boomers.

In contrast, consider the top end of the pyramid. The effects of World War I are still showing up in the population profile, in the sense that so many thousands of young men were sent away to war that fertility rates dropped dramatically between 1915 and 1919. Then, during the 1920s, after the troops came home, the number of births jumped dramatically. During the Great Depression of the 1930s, the number of births again fell noticeably.

As an aside, one implication of these changes in birth rates is the relative difficulty that different generations encounter in establishing themselves in well-paying careers. Because there were far fewer children born during the Great Depression than in the postwar baby boom period, people who are now in their fifties have had to face much less competition for good jobs than will the crowded cohort of baby boomers.

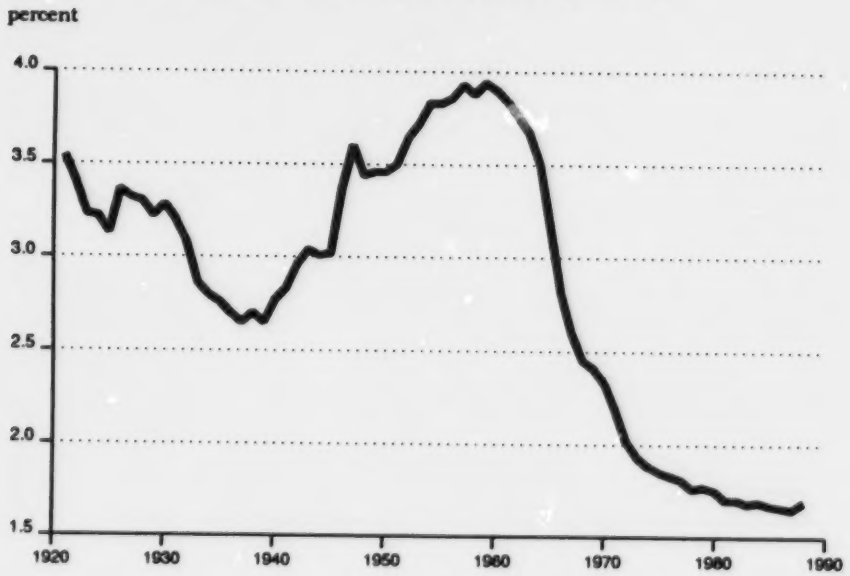
To finish this review of Canada's demographic foundation, let us compare this country's fertility patterns with those of other countries. As shown in Figure 3, fertility in Canada was around 2½ children per family in the 1930s. By 1960, this had risen to a peak of around 4 children per family. It then plummeted through the 1960s, 1970s, and the 1980s. The rate now stands at 1.67 children per family and falling. This is below the replacement level of 2.1 — 2 to replace the parents, and an additional 0.1 to replace those who choose not to or cannot have children.

In Quebec, the figure has fallen to 1.45 — the lowest fertility rate in Canada — so it should come as no surprise that francophone Quebecers are concerned about the continuation of their culture. In an effort to encourage people to have more children, the Quebec government even offers cash grants. In its most recent budget, these grants were increased to $500 for the first child, $1,500 for the second child, and $6,000 for the third and every additional child. This is not, however, likely to be an effective policy — how many people would have a child for even $6,000?

Research suggests that the only policy that seems to affect fertility is the allocation of housing. In the former East Germany, for example, where the housing stock was all publicly owned, the

Figure 3

Period Total Fertility Rate, Canada, 1921–88



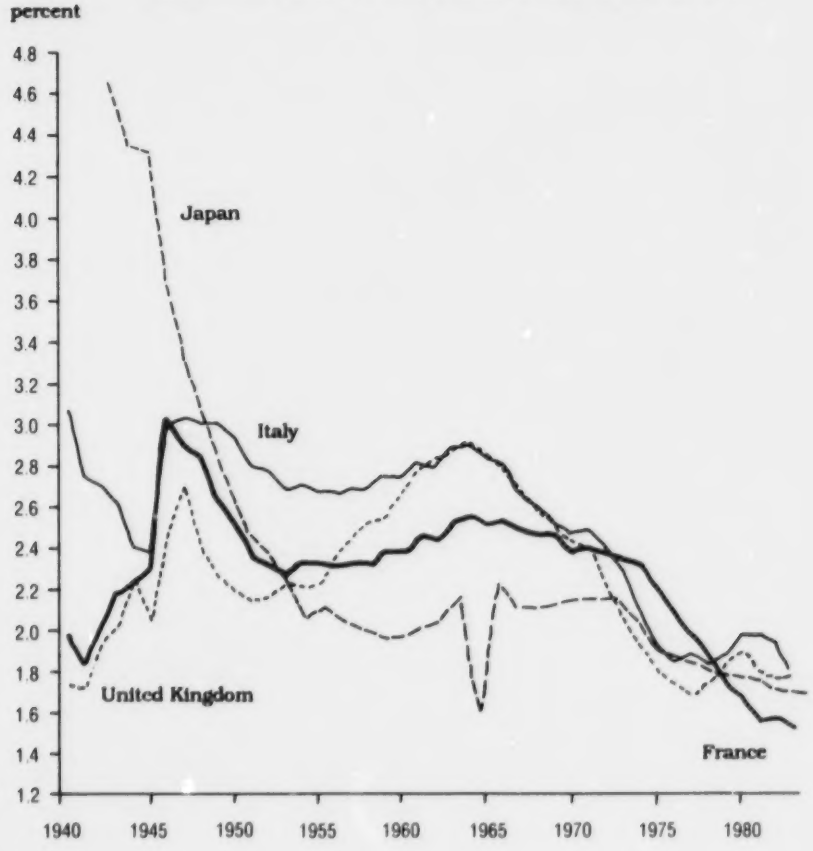
Source: Statistics Canada.

government increased fertility by giving preferential treatment in the allocation of housing to families with larger numbers of children. In Singapore, in contrast, it was decided that the population had to be stabilized, so overcrowded slums were torn down and replaced with publicly owned high-rise apartments. The best of these apartments were then given to families with two children. The fertility rate there immediately began to drop toward 2 children per family.

At 1.67 children per family, how does Canada stack up against the rest of the world? In the Scandinavian countries, the fertility rate is about 1.4 — about the same as it is in Toronto. In Germany, the rate is around 1.2, while in northern Italy, it is under 1.0 despite the influence of the Vatican. Figure 4 presents postwar fertility rates for a selection of European countries — the fertility patterns for the

Figure 4

Period Total Fertility Rate, Selected Countries, 1940–83



Source: Statistics Canada.

United Kingdom, France, and Italy — in addition to Japan. The first thing to notice is that Europe's postwar baby boom was much less pronounced than that in North America. In fact, only the United States, Australia, and New Zealand had baby booms to match Canada's. The U.S. baby boom, while very similar to Canada's,

peaked at a lower level and is a rather less important component of that country's population than it is in Canada. Australia's fertility rate is lower than Canada's, but since equal opportunity employment took somewhat longer to come to that country than it did to North America, Australia's baby boom lasted ten years longer.

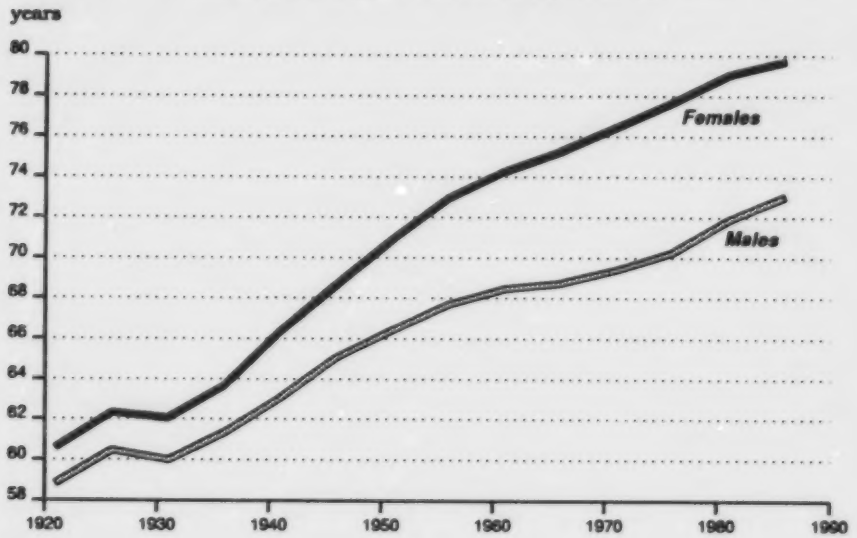
Japan's fertility rate tells an interesting story. Fertility there began to drop in the late 1940s, rather than in the 1960s as in North America. As a result, Japan began to run short of young workers twenty years before Canada and the United States did. With so few people entering the labor force, Japan had no choice but to turn to machines to do the work. Productivity thus grew rapidly, and one may question the degree to which this can be attributed to the brilliance of Japan's management style. Paradoxically, Japan now faces the possibility of considerable social upheaval. Many of the new entrants to its labor force are temporary or even illegal immigrants who find it virtually impossible to get Japanese citizenship, and thus have no hope of a long-term stake in that society. Many European countries have had similar "guest-worker" programs since the 1960s, and few people now consider them to have been successful.

The basic message, therefore, is that Canada's demographics are relatively unusual. Only three other countries had a baby boom like Canada's: the United States, Australia, and New Zealand. In Australia and New Zealand, the baby boom was flatter and more spread out. In the United States, it started in 1946, finished in 1964, and peaked at around 3.6 children per family. In Canada, it started in 1947, finished in 1966, and peaked at around 4 children per family. So, relative to the population, Canada's baby boom generation is the biggest in the developed world.

At the same time, Canada's population is aging rapidly, not only because there are fewer younger people around, but also because increasing life expectancy in this century has meant that there are more older people around. Life expectancy in the 1920s was around 60 years for men and 62 years for women (see Figure 5). Even in the 1920s, women were the stronger breed! Since then, life expectancy has increased to 73 years for men and 80 years for women.

Figure 5

Life Expectancy at Birth, Canada, 1921–86



Source: Statistics Canada.

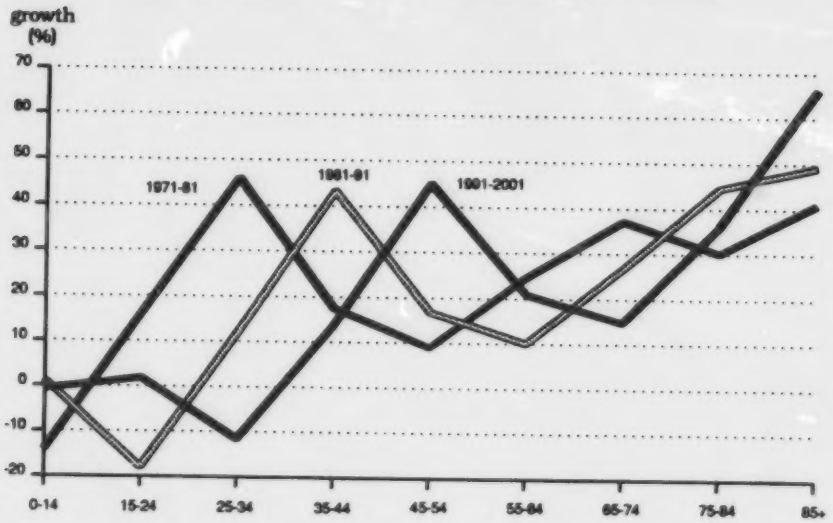
People as Customers

Given this demographic background, we are now ready to examine people as customers or clients. Where have the markets been and where are they likely to go in the 1990s? Figure 6 relates growth rates over a decade to age groups. They are deliberately selected to be ten-year age groups, with the exception of the pre-working-age young — those up to age 15 — and those aged 65 and over.

First, consider the decade of the 1970s, defined as the change between the 1971 and 1981 censuses. Between these two years, the pre-working-age young declined by 14 percent. This is because the declining fertility of the 1960s and the 1970s meant that there were fewer younger people around — the baby bust generation. The effects of this in the markets included consolidations in the baby food business and bankruptcies among children's toys manufacturers.

Figure 6

Population Growth by Age Group, Canada, 1971–2000



Source: Statistics Canada.

At the same time, product lines and client groups that were oriented toward youths aged 15 to 24 saw their markets grow by about 16 percent, which was somewhat higher than the 13 percent by which Canada's population as a whole grew during this period. Managers in these areas did not have to be brilliant to come in with above- average sales.

This was even truer for products and services aimed at the baby boomer market of 25-to-34-year-olds, which grew 46 percent between 1971 and 1981. Two examples of groups that benefited from this rapid market growth were landlords and pet food manufacturers, for the simple reason that people in their mid-twenties leave home and rent apartments and, market surveys show, they tend to get their first pet at age 28. Landlords did not have to be brilliant; they merely took advantage of the demographics. Pet food manufac-

turers conducted their research, targeted the market, and cleaned up!

Products and services aimed at the Depression-era babies now in their mid-forties to mid-fifties did far less well, since this market grew by only 9 percent. The seniors market boomed, however, growing by 35 percent over the decade.

Now move the curve in Figure 6 to the right one slot. In the period from 1981 to the present, the population has aged by ten years, and the action has shifted. The pre-working-age market, which declined by 15 percent during the 1970s, is now growing by 1 percent. These are the children of the baby boom — the echo generation — and this is the reason why children's toys franchises are booming, why day care is now a major issue, and why elementary school enrolments are rising again.

The youth market, however — those aged 15 to 24 — has been declining by about 18 percent since 1981. How long has it been since youth unemployment was considered to be a major national calamity? Yet advertising in this country seems to have ignored this simple demographic fact. It is no wonder that the beer industry is in trouble or that teenagers complain they cannot find their music on the radio. This is the baby bust generation, and there are not many of them around.

The real growth again is among the baby boomers, now in the 25–34 and 35–44 age groups. Is it any surprise that the Canadian housing market is booming? On average, people become first home owners around age 34. Since the peak year of the baby boom was 1960, and these people are now 30, one can expect the housing market to continue to grow until 1994 and then gradually decline.

What about the 55–64 age group? This is the group in which early retirements are supposed to occur. Indeed, many organizations have policies to encourage early retirement in order to get some rejuvenation from within. The Ontario government, for example, recently completed its Voluntary Exit Opportunity (VEO) program, whereby employees were offered double the severance if they chose to leave within a specified time period. Yet, I predicted that perhaps

three-quarters of those who took VEO severances would be under age 45, and this appears to be the case. The reason, again, is that there are so relatively few of these Depression-era babies around to retire early. The implication of this is that, just now, there is little scope for upward mobility as a result of early retirement.

As for those age 65 and older, ironically the media are now very sensitive to the seniors' market just as the growth of that market is declining! This was a booming market in the 1970s because it was composed of pre-World War I babies, born during very good economic times when fertility rates were high. In the past ten years, however, the people entering the seniors' market have been the small number born during World War I and the rather larger number born during the 1920s — but still fewer than the pre-World War 1 generation.

What is coming in the 1990s? Simply move the curve to the right one more slot. Those of you who are bored with your jobs and thinking of getting a toy franchise should reconsider! The echo generation looks like it may have peaked in the late 1980s. Those born at the peak of the baby boom are now 30; if a woman waits until she is 30 to have her first child, she likely will have two, at most. So the number of births will decline, and so there will be fewer young people around in the 1990s.

The youth market — which declined 18 percent over the 1980s — will rebound to 2 percent growth over the 1990s, which means that there will be only slightly more youth around in 2001 than in 1991. There will be no more young people to work in retail shops, and no more of them to enter organizations. The emerging labor shortage, which is now apparent to everyone in central Canada, is going to continue through the 1990s. This is why Canada is turning to machines to produce its output, just as Japan did 20 to 30 years ago, and this is why productivity is rebounding in Canada, just as it did in Japan 20 to 30 years ago.

The "wipe-out" market of the 1990s will be the 25–34 age group. If you have a rental condominium, I would suggest getting rid of it pretty quickly. All the new entrants to the rental housing market are coming from the baby bust generation, and there are few of them out

there. Yet governments are borrowing money to build new rental accommodation! No doubt, vacancy rates will be back up by the 1990s and government policies will look good again.

The fastest-growing markets of the 1990s will again be the baby boomers, now aged 35 to 54. Shoe manufacturers are rapidly turning from running shoes to walking shoes. We do not need any more tennis courts — we need walking paths! If VIA Rail is to be demolished, I suggest using the rail beds as walking paths, because that is how people in their forties and fifties get their exercise.

Finally, it is important to understand that although Canada is an aging society, the *growth* of the population aged 65 or older is declining. Who will enter this group in the 1990s? All those born in the early 1930s, and there are relatively few of these Depression-era babies around. In fact, it is necessary to divide the seniors' population into at least three groups: the young seniors (65 to 74), the middle-age seniors (75 to 84), and the senior seniors (85 and over). So, if it was the 65 and over population that boomed in the 1970s, it is the 75 and older population that has been booming in the 1980s, and it will be the 85 and over population that will be booming in the 1990s. This implies the need for nursing homes and hostels for seniors and health care for people 85 and over. It is this part of the seniors market that will be booming in the 1990s.

People as Employees

Now let us turn to the human resource issues, or people as employees. As I have indicated, the most rapidly growing part of the population in the 1990s will be those aged 35 to 54. This will generate all sorts of human resource planning challenges, let me start by taking a longer-term demographic perspective, and by explaining how demographers ply their trade.

No self-respecting demographer simply moves the curve to the right one slot to generate projections into the future. Instead, demographers use mathematical models that require assumptions about the determinants of population change, and demographic projec-

tions from such sources as Statistics Canada and the Ontario Ministry of Treasury and Economics contain alternative scenarios based on alternative assumptions.

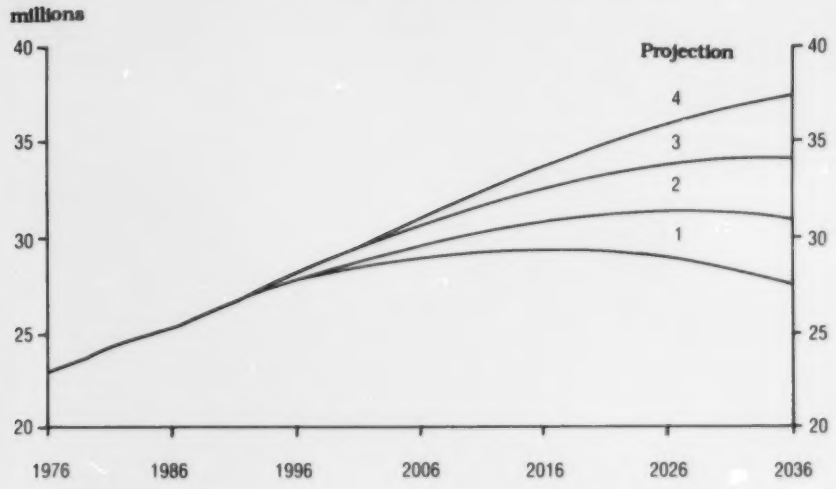
For example, as demographers look into the future, they note that the fertility rate can stay where it is, or continue to decline, or perhaps rebound. In this way, they have been good civil servants, and have not been seen to be advocating any one position! *Caveat emptor* applies in this field. Demographers do this all the time. They never say what they really think is going to happen; instead, they provide alternative scenarios. Of course, this is what strategic planning is all about, so demographers provide an extremely good strategic planning tool.

Demographers do the same thing with regard to the other components of population growth — life expectancy, immigration, and emigration. For example, immigration to Canada in 1989 totalled around 190,000 persons, while in 1985 it was only 85,000. Meanwhile, about 70,000 persons leave Canada each year. In the postwar period, the annual intake has averaged around 140,000, so we are well above that now, although this is below the 282,000 people who came to Canada in 1957 and far below the 400,000 who arrived in 1913, on the eve of World War I, to open up the Canadian West. So while immigration levels are somewhat higher now than they have been in the past, they are still relatively low compared with past peaks.

Consequently, it is not difficult to generate alternative visions of Canada's population growth based on different assumptions about immigration and emigration. Consider Figure 7, which has been borrowed from Statistics Canada. The top line assumes that immigration over the next 40 years will average out at 200,000 people per year. Although similar to current figures, this is higher than the average of the past 40 years. The line also assumes that fertility takes the high road, reversing its current downward trend. Now, a straight line on an arithmetic scale means, of course, slowing growth. So even with a complete reversal of fertility patterns and higher levels of immigration, the growth of Canada's population will continue to slow

Figure 7

Trends in Total Population, Canada, 1976–2036



Source: Statistics Canada.

down. The massive baby boom, every year getting a year older, will still dominate the scene.

If fertility remains constant and immigration averages 200,000 people per year, then we are moving along the second curve, which actually peaks in the 2030s. We are not talking about slowing growth now, but about zero growth. What happens if the trend toward lower fertility does not reverse, which is what most people would expect, and immigration is somewhat lower? Then we are in the lower ranges, and the bottom curve actually peaks as soon as 2016 — just 25 years away.

Now consider what the rest of the world would think about a country as big and as rich as Canada having a population growth that will continue to slow down and perhaps reach a maximum within the next 25 or so years. In my view, we have not even begun to see the pressures for immigration to this country.

Other implications come out of these longer-term projections. For example, at present there are around 380,000 births in Canada every year, and around 190,000 deaths, or approximately two births for every death. Within the not too distant future, the media will be demanding that the federal government explain its policies when the number of births approaches the number of deaths. Well, it is virtually impossible for the government or anyone else to do anything about it; the demographics are already etched in stone.

Now look at the Figure 1 again and, starting in 1981, move forward 25 years to 2006. Consider what it will be like to work in an organization that is hierarchial or pyramidal in structure when everyone wants your management job, and there is no one around to manage! That hierarchial organizational structure worked well in the past because there were plenty of young people around to fill out the bottom of the corporate structure. This will no longer be true in 2006. How will a corporate structure be maintained in the face of this sort of employee structure? This is the essence of the human resource planning dilemma that will emerge as the key issue of the 1990s, the environment notwithstanding. Move forward another 25 years, to 2031. There will be a pyramid all right, but it will to stand on its apex! So the problem will *not* be temporary.

Let us look at this planning issue in more detail, starting with the education system, which is where employee training begins. Back in the early 1960s, at the peak of the baby boom, there were many preschoolers around. Then, through the balance of that decade and the 1970s, the number of preschoolers declined. In the 1980s, when the echo generation started, the number of preschoolers began to increase, and day care emerged as a major issue on the national agenda. True, the emergence of the day-care issue is related to the increasing number of women in the workforce, but it is also related just as much to simple numbers: there are more preschoolers around in Canada today than there have been in the past 20 years. I would not be surprised if this country finally has a really sensible day-care policy in place by the mid-1990s — after the peak of the demand has passed!

At age 6, children reach elementary school, so six years after the preschool population peaked in 1963, the elementary school population peaked in 1969. Then, all through the 1970s and into the 1980s, elementary schools closed as the number of children in this age group declined. Now, elementary school enrolments are rising once more as the children of the echo generation reach school age. It was all perfectly predictable! Long ago, stories of teacher shortages were emblazoned across newspaper headlines. Then we had 20 years of teacher surpluses. Now there are teacher shortages once again. In Ontario, for example, there is an elementary school building boom throughout the province. The Peterson government responded very quickly to increased school enrolments and announced a $1.2 billion program for new schools over four years. Every new community now has its new elementary school, or actually *two* schools — public and separate. And if it is in Ottawa, it is *four* elementary schools — public, separate, francophone, and nonfrancophone. I once congratulated a government minister on his government's quick response to these demographic facts, but then asked him if cabinet had debated whether or not to put an extra 15 percent in the budget to enable plumbing to be installed in all the classrooms. After a negative response, he asked me why. My response was so that they can be sold off as senior citizen condos in the mid-1990s, when we will no longer need the classrooms!

You only need one child to create two parents, both of whom vote. The political system is delivering these votes very efficiently to the politicians. It may be very efficient politics, but it is very dumb public policy. Please do not misunderstand me. I am *not* saying we should not want the best education for our children, nor am I necessarily saying that we should not be building the schools. What I *am* saying is that if we do build a new elementary school we should do so with alternative uses in mind. We should be building them so they can be converted into retail space or into office towers. Alternatively, perhaps we should let the private sector build them. The government could then rent them back on a ten-year lease arrangement and return them to the private sector when they are no longer

needed as schools. I fear that we are not doing enough of this "alternative use" planning and that, by the late-1990s, we are going to be left with a lot of empty new elementary schools.

At age 13, children start to go to high school. So, right on target in 1976, seven years after the elementary school peak, the high school population peaked, and ever since then, high schools have been closing. In 1993, however, the first children of the echo generation will turn 13. So we can expect another three years of closings before high school enrolments start to increase once again. In the mid-1990s, expect to see stories of high school teacher shortages in the newspapers. Remember you read it here first! With intelligent planning, some of the elementary schools will be saved so that they can be turned into high schools. They certainly should be built with that in mind. Moreover, people who want to become teachers now should start at the elementary school level, then upgrade their qualifications so that they can jump over to the high school level when elementary school enrolments start to slide in the mid-1990s. This way, they can stay with the children of the echo generation all the way through the educational system.

What about postsecondary education? This is, quite frankly, getting a bit too close to home for academics like me. Apparently, several of Ontario's 22 community colleges are now facing bankruptcy. Yet, in our great wisdom, we are now planning to build a 23rd college. Again, please do not misunderstand me. I am not suggesting that Ottawa should not have a francophone community college, but wise public policy might be to carve it out of Algonquin College rather than build a new facility.

The universities are a different story. Why am I not worried about my job, as I might be if I were a college instructor? The reason I am not (tenure aside!) is that 46 percent of all university students in Canada today are 25 years old and over. Moreover, if people want to go back to school, particularly after age 30, they are more likely to go to university than to college. So, with an aging population, university enrolments will continue to rise. Unfortunately, the universities do not seem to understand this fact. Instead, they tend to

look down on their part-time students and their continuing education programs. In my more ridiculous moments, I talk about the possibility of offering Ph.Ds by distance education, and I feel that I am almost alone in my university. Remember that the big market growth in the 1990s will be among those aged 35 to 54. Will the universities be marketing to that age group? I certainly hope so, but we will have to wait and see.

The last topic I want to cover is the implications of Canada's demographic trends for unemployment. In 1983, everyone was worried about a youth unemployment rate of 20 percent. The response, in 1984, was a rash of public policies to deal with the problem, and by 1989 youth unemployment was down to 12 percent. Look at Figure 6 once again, however, and see how the growth of this age group slowed down over the 1980s. Did public policies reduce the youth unemployment rate, or was it demographics?

Now, however, unemployment is no longer a youth problem. Table 1 shows the ratio of each age group's unemployment rate to the total unemployment rate. Traditionally, the youth ratio was a number like 1.75, and the youth unemployment rate was 75 percent above the national rate. In other words, if the national rate was 10 percent, the youth rate would be around 17.5 percent. By 1989, however, the ratio of youth unemployment to total unemployment had fallen to 1.5 simply because, throughout the decade, there were fewer and fewer youth around to be unemployed. In the meantime, relative to other groups, the unemployment rate for those aged 25 to 34 group was getting worse and worse. The unemployment ratio for this group is now above the national average — the latest figure is 1.08. Unemployment ratios in the older age categories are also creeping up.

The unemployment problem is moving with the baby boom generation. Yet, once again, public policy lags behind demographic reality —almost all policies for special unemployment assistance cut out at age 25! In general, Canadians do not seem to be particularly concerned about unemployment among people who are in their late twenties or early thirties. Many people suggest that technology is

Table 1

Relative Unemployment Rates by Age, Canada, 1975–89

(ratio)

	15–24	25–34	35–44	45–54	55–64	65+	All
1975	1.74	0.88	0.64	0.65	0.62	0.72	1.00
1976	1.79	0.89	0.68	0.59	0.59	0.31	1.00
1977	1.78	0.86	0.67	0.63	0.63	0.25	1.00
1978	1.75	0.89	0.69	0.64	0.65	n.a.	1.00
1979	1.74	0.91	0.68	0.64	0.62	n.a.	1.00
1980	1.76	0.88	0.67	0.65	0.60	n.a.	1.00
1981	1.76	0.93	0.68	0.63	0.59	n.a.	1.00
1982	1.71	0.95	0.72	0.64	0.63	0.23	1.00
1983	1.67	0.99	0.71	0.64	0.68	0.17	1.00
1984	1.58	1.03	0.73	0.69	0.78	0.19	1.00
1985	1.57	1.03	0.74	0.69	0.78	0.19	1.00
1986	1.58	1.03	0.75	0.68	0.76	0.24	1.00
1987	1.54	1.02	0.78	0.73	0.80	0.29	1.00
1988	1.55	1.04	0.79	0.73	0.79	0.26	1.00
1989	1.50	1.08	0.81	0.71	0.84	0.25	1.00

Source: Statistics Canada.

responsible for unemployment in the older age groups, but I maintain that it is demographics. Unfortunately, space does not allow me to go into the implications of these trends for crime and criminal justice.

Let me conclude by asking: What happens when a country has a labor force whose structure no longer looks like a pyramid? Since the beginning of the 1980s, the base of the age pyramid of the labor force has been falling in dramatically. There are now far fewer young people out there to recruit. Worse still, huge numbers of baby boomers are now reaching their early and mid-management ages, and there simply are not enough management positions to go around. Employers can continue to promise baby boomers that if they work hard, they will get promoted, but there are few promotional prospects for people over the age of 30. It is just not possible to take

a rectangular baby boom and promote it up a corporate pyramid. It does not fit.

Senior managers are increasingly out of touch with the problems that their baby boomer employees are experiencing. In the 1990s, they will have to come to grips with the basic fact that the whole idea of rewarding people by promotion will no longer be an effective human resource tool. The baby boomers' future career paths are going to look very different from those their managers are espousing today. If these baby boomers cannot be motivated while they are in their mid-management years, Canada is going to lose a huge amount of productivity in the 1990s and beyond.

The solution will be up to both employers and employees. Employers will have to find a way to flatten their corporate pyramids to accommodate this massive baby boom into middle-management positions. Under these conditions, it is both inappropriate and unacceptable from society's point of view for companies to get leaner and meaner by throwing most baby boomers onto the unemployment system when they get to their late thirties or forties. And replacing them with young people is not a solution, either, since there will be few young people coming on the labor market during the 1990s.

For their part, employees will have to stop looking for promotion as the reward. Instead a "linear career path" — being promoted up the corporate structure — most employees will have to take a spiralling career path, with a mixture of lateral and vertical (or promotional) moves so that they can spiral up the corporate structure. This means that, in the 1990s, the employee who is flexible — who can move around within an organization — will be far more valuable to the corporation than the employee who is a specialist. The age of the generalist is coming back. A lateral move should also be accompanied by a higher salary, since, in a flattened corporate structure, each of the much fewer employee levels will be characterized by much wider salary bands. That is the only way that we will be able to challenge the baby boom generation in the years ahead, and it is the only way that Canada will reap the productivity gains from the investment in people it has made.

3 Globalization and the Canadian Nation-State

Richard Simeon

The nation-state has been the dominant political form of the modern world, as is evident by the many lines that carve up the world map. The nation-state's last great period of expansion was in the postwar era of decolonization, when, in country after country, from huge India to the microstates of Melanesia, the colonial flags came down and proud new banners symbolizing independence were raised.

At one level, the nation-state is still dominant. We all live within some borders; we all carry some country's passport. The identities we hold and the rights we possess derive largely from our citizenship in some nation-state. There is little chance that nations will disappear soon. Other kinds of political institutions — transcending the nation-state — are indeed growing rapidly in importance, but none can command our loyalties or act as decisively as nations.

If the dominant ideas of the postwar era were independence, autonomy, and national sovereignty, the dominant words of the present are globalization and interdependence — terms which call into question not so much the existence of the nation-state, but its continuing effectiveness and viability as an institution through which individuals and communities can meet economic, environmental, social, and a host of other challenges.

Canadians live in a period of immense institutional upheaval. The international political forms they have known are changing in

bewildering and sometimes contradictory ways. The last great imperial power, the Soviet Union, is breaking up, and its Warsaw Pact military alliance will soon disappear. Powerful nationalisms are resurgent throughout eastern Europe. Right next door, in western Europe, an unprecedented, voluntary transfer of sovereignty, jurisdiction, and authority to the supranational institutions of the European Community (EC) is well under way. At the same time, in Belgium, Italy, Spain, and other countries, power and political vitality is being transferred to subnational regional and local governments. These subnational units themselves are developing international linkages and — in the EC, for example — are interacting directly with the supranational bodies.

Canada is experiencing both of these trends simultaneously. On the one hand, there is the country's possible fragmentation, based on older nationalisms and regionalism; on the other hand, Canada is becoming more closely integrated into the larger North American political economy. As I will argue later, these two phenomena are intimately related.

How are we to make sense of all these currents? Where are they taking us? What impact will globalization have on the nation-state? Does the nation-state, in fact, have a future? What are the prospects for the Canadian nation-state, in particular? I regard questions like these with great ambivalence. Why should we lament the decline of the nation-state, in whose name so many wars have been fought, so much repression carried out, so much irrational protectionism maintained? Perhaps, therefore, we should welcome its decline. But I do lament it in some ways. The nation-state gives political meaning to our lives, and defines our sense of community. And, however flawed, it provides the vehicle through which we practice democracy.

The Mismatch between Problems and the State's Capacity to Manage Them

I want to begin with some general considerations and then turn to the Canadian case. First, globalization highlights the growing mismatch between the scope and scale of the issues with which we must

cope and the reach of the political institutions through which we must deal with them. The result is that global forces increasingly escape the capacity of states to manage them.

The environment is the most obvious example. Acid rain, global warming, and ocean pollution all mock national boundaries. In the absence of some overarching authority, the problem is the classic one of the tragedy of the commons: every nation has an incentive to impose the costs of its pollution on others; none has enough power to make a difference on its own, so none has an incentive to change its behavior. The mismatch is that the problems are global, while the institutions are local. The existing nation-state is an ineffective mechanism to deal with these challenges, yet the task of institution building at the international level is immense.

The same holds true for the regulation of business and finance, which, increasingly, also escape the reach of the modern nation-state. The basic fact about nations is that they are fixed in space; they control little bits of the globe. But business and finance — married to communication technology — move around the world with lightning speed. Increasingly, business no longer carries a flag. It is less and less meaningful to talk of "U.S." or "Canadian" or even "Japanese" business. The transnational corporation is the truly supranational institution in the modern world. It is significantly unregulated at the global level.

Once, the internationalists were Marxists — "workers of the world unite" — but now it is the corporations. Increasingly, their mobility allows them to escape regulatory nets that individual countries might wish to weave and to manipulate the policies of countries desperate for the investment and jobs they may bring. Parenthetically, this is the reason why the biggest losers from globalization are not only the immobile nation-states, but also the relatively immobile workers, especially those in traditional industries.

The Consequences of Globalization

Globalization has three primary effects on the nation-state. First, it defines the problems with which the nation-state must cope —

pollution, say, or rapid shifts in global markets and production which then have massive effects on specific regions or industries. Second, globalization constrains and limits the nation-state's responses to these problems. Third, it creates new roles for the state to play.

Many constraints on the nation-state's ability to act come from rules of permissible behavior set out in formal international agreements — the General Agreement on Tariffs and Trade, for example, or the Canada-U.S. Free Trade Agreement. The biggest constraint, however, comes from the mobility of capital. Many of the levers that governments once could pull are no longer effectively available to them, or are available only at a very high price. Tariffs, for example, were once the pre-eminent instrument of Canadian industrial policy; they are no longer. Keynesian fiscal and monetary policy is rendered largely ineffective in open global financial markets. Companies can respond to higher levels of taxation, or to tougher pollution laws, or to more generous occupational health and safety rules by moving to places where the laws are more lax and the taxes lower. The constituency to which politicians must answer is as much that of global financial markets as it is the voters.

Thus, there is enormous pressure to "harmonize" policies from one country to another, and diminishing opportunities for countries to choose to go their own way. Given the increasing role that low-wage countries with weak welfare-state systems play in the international economy, harmonization pressures are leading, I think, to reduced standards in many areas. For conservatives, this is the great virtue of globalization — and of arrangements such as the Free Trade Agreement: they are straitjackets limiting the ability of government to intervene in the pursuit of social or economic goals that conservatives consider to be inherently distorting and irrational in any case. But for those who look to the state as the instrument through which citizens can control capital and use their voting power to define the kind of society and economy they want, the reality is one of limits and constraints.

Obviously, the limits vary from country to country. Canada, for example, has always been a small economy, open to the world —

highly dependent on external trade and vulnerable to external forces; in a sense, for Canadians, globalization is not new. By contrast, the size of the U.S. market and that country's capacity to set the rules for the rest of the world has assured it greater autonomy; but the United States, too, is having to learn to live with global constraints, especially as it is now the largest debtor nation in the world. Just as Canadians are asking how federalism gets in the way of effective national policy, Americans are asking whether the congressional system's diffusion and fragmentation of power hampers the United States' effectiveness in this environment.

While defining problems and putting constraints on the nation-state's course of action, globalization also creates new roles for the state to play. In the first place, it requires that the state be more effective in projecting its interests and concerns into the world. Increasingly, however, it also requires the state to mediate and cushion the impact of global forces on the domestic environment. Indeed, the state is often called on to do two contradictory things — to protect workers and industry against the upheavals imposed from outside, and to foster and facilitate adjustment and restructuring to improve competitiveness in the world. The economic imperative may be to adjust, but the political process often favors protection.

The Central Problem of Governance in the 1990s

The problem of governance today is that the state is called on to mediate between the global environment on the one hand and the domestic society and economy on the other, so that it finds itself at the collision point between two sets of profoundly conflicting forces. In Canada, at least, I think this creates enormous strains, because the imperative of globalization seems to be the need to place much greater emphasis on productivity, competitiveness, and efficiency; to deregulate; to reduce taxes on mobile corporations; to reorient social policy to foster adaptation, adjustment, and efficiency; and to re-

strain the ability of the democratic political system to respond to the demands of citizens.

Changes to the domestic society, however, generate a quite different set of imperatives: to increase regional and interpersonal redistribution; to respond to demands for greater equity and social justice from all sorts of newly mobilized special-interest groups; to disperse political power and increase opportunities for political participation; to protect individuals and communities against the disruptions caused by global forces, and so on.

The two sets of forces pull in quite different directions — and the state is caught in the middle. Opinion polls and stock markets often send conflicting messages — and governments ignore either at their peril. This poses an immense challenge for political leadership and institutions. Governments are called on to facilitate adaptation and adjustment, but in a domestic environment and with a political process highly resistant to these forces.

These are some of the general challenges that globalization poses for the nation-state. But the precise character of these challenges and the individual nation-state's reaction to them vary according to the state's distinctive society and economy, the role it plays in the global economy, and its political institutions. So let us turn now to Canada.

Globalization's Challenge for the Canadian Nation-State

There are, I argue, some direct links between globalization and the national debate on the future of Canadian Confederation. To put it bluntly, global and North American integration promotes Canadian disintegration.

This process operates in many dimensions. First, global forces affect an already highly regionalized national economy. Indeed, it is hard to know whether a Canadian "national" economy has any meaning in today's world. The effects of global forces on each region are different and generate different — and often competing — needs. In so doing, they exacerbate existing regional differences. The deeply

divisive energy wars of the 1970s, for example, were the result of the differential regional impact of events taking place thousands of miles away. Policy responses appropriate to one part of the country may be utterly inappropriate to others — monetary policy driven by Ontario creates havoc in the Maritimes. Increasingly, therefore, there is talk of the need for regionally distinct fiscal policy, monetary policy, industrial policy, and so on. Some people even suggest there should be regional currencies. Where, in such a scenario, is there room for any sort of national policy, and where is there a coherent role for the federal government?

Second, it is at least possible that the long-term effect of greater global integration is to increase regional and class disparities at home, at the same time as those forces increasingly constrain the federal government's ability to address them. As Tom Courchene suggests in his contribution to this volume, it is becoming more and more difficult to maintain an east-west transfer system, while developing a north-south trading system.

As Canada strengthens its links with other countries, the relative importance of interprovincial economic links declines. Recent Ontario government figures show that, from 1975 to 1985, the proportion of all Ontario production that was sold to other Canadians declined from 22 percent to 15 percent, while the proportion sold to the United States rose from 15 percent to 22 percent. That is a massive shift in just ten years.

The economic consequences of this may be good; the political implications may be very different. What it means is that, over time, Canada is less and less seen — as Allan Blakeney once put it — as a mutual insurance company in which we all have a stake in each other's well-being and a reason to share with each other. Before the Canada-U.S. auto pact in 1965, for example, the car assembler in Oshawa had a direct stake in how well B.C. loggers were doing — because that determined how many cars they could buy. After the auto pact, Ontario no longer sold cars to British Columbia, and so the Oshawa assembler no longer had much stake in how things were going there. To take another example, consider equalization — that

most fundamental of Canadian policies. It seems to me that the political impact of an equalization dollar that flows from Toronto to Ottawa to Fredericton and then back to Toronto is very different from one that goes from Toronto to Fredericton and then out of the country.

The Federal Government as the Main Loser from Globalization

The inevitable result of these global forces, over time, is to chip away the cement that binds Canada's regions together, to reduce Canadians' willingness to share and to redistribute. The goal of building an east-west economy — which provided a basic rationale for the very creation of a national government in Canada — is now largely abandoned. There are good economic reasons for this, but one result has been a decline in the salience and importance of the federal government and in shared interests across regions. I realize this seems very Ontario-centered. Free trade was indeed touted as a way of diminishing regional tensions. But the strategy is inherently one of disengagement, not of developing stronger mutual links.

I think it is clear that globalization reduces the power and capacity of *all* governments. In the Canadian case, however, it is the federal government that is likely to be the greatest loser in the long run. Its powers are the most constrained; it has the least ability to develop coherent policies, since it must balance so many regional interests; and it has less jurisdiction over the kinds of quality-of-life issues that are likely to become the major areas of government innovation in the future. These are largely provincial, so that, in Canada — perhaps paradoxically — globalization seems to be fostering decentralization rather than centralization.

The constraints imposed by globalization weaken the federal government in other ways. As the free trade debate showed, for many Canadians the basic cement holding the country together seemed to be a small set of institutions — the CBC, Via Rail — and social policies such as medicare. But debt, deficits, and pressures to harmonize policies and standards with those of other countries mean that it will

be hard to sustain these programs at current levels, much less to launch such nation-building initiatives in the future. Where, then, is the cement that holds Canada together?

Declining integration within the country also helps account for the way we think about the possibility of Quebec's independence, and why we are thinking about it differently today than we did even in 1980. The declining effectiveness of the federal government makes it a less attractive pole for the allegiance and support of francophone Quebecers. An independent Quebec government might be powerless, too, but at least it would belong to Quebecers. Moreover, as Quebec becomes less and less linked to, and dependent on, the Canadian market, then one of the main arguments against independence in 1980 — the economic risks it entailed — loses much of its force. This may help explain the current vogue for support for independence in the Quebec business community and the recent spate of reports minimizing the costs of separation. I happen to think this is a delusion, because another consequence of globalization is that countries such as Canada have to conduct their political games in full view of spectators from the outside world. And the global markets, which keep score, do not like political instability and uncertainty. Already, there are strong hints that international finance is discounting Canada significantly; this would increase enormously once negotiations on a breakup got under way.

The final impact of globalization on the Quebec-Canada discussions is that, by diminishing the role of the nation-state while opening up debates on a wide variety of new institutional forms — such as the EC — it then reinforces the realization that there is nothing sacrosanct about existing institutions. By extension, therefore, there is nothing sacrosanct about Canada's form of federalism, so why not experiment here, too? Globalization, then, poses some special problems for Canada; indeed, it is at the heart of some of Canada's most difficult political problems.

What about the other side of the coin? How well equipped is the Canadian nation-state to respond to the challenges of globalization? Can it promote adjustment at home, project Canada's interests

abroad, and ensure that Canadians maximize the range of choices open to them in a constrained world? It must be stressed that Canada approaches this with some very distinctive characteristics:

- it is among the most open economies in the world;
- its international linkages are overwhelmingly dominated by its relationship with the United States;
- it is one of the world's most decentralized federations;
- it is a binational, regionalized society;
- it has extremely high levels of foreign ownership;
- it has — in English Canada, anyway — no unique language that can act as an invisible protector of Canadian culture and distinctiveness in the face of globalization.

At one level, these characteristics gives Canada enormous strength and resilience. Bilingualism and multiculturalism mean that we can communicate and do business with virtually every country in the world in their own language. Surely, that is a remarkable advantage — once new immigrant groups are integrated fully into this country's national life.

Canada's decentralized federalism also gives it the ability to innovate and experiment, and to tailor policy responses to particular regional needs. Moreover, Canadians have learned to operate the very kind of layered, multilevel political system that may be characteristic of the emerging state system — could it be, then, that Canadians have a jump on everyone? Indeed, what some see as Canada's weakness — a fragmented regionalized society and a decentralized federalism — may, in fact, be a real strength.

At the same time, however, these same characteristics do increase Canada's vulnerability. Decentralized federation means that Canadians cannot speak with one voice abroad and cannot respond in a coherent, unified way to trade challenges. Federalism, we have learned, no longer stops at the border. Global forces have a direct effect on provincial policies; provinces are increasingly active internationally. The divided authority to make treaties — which denies Ottawa the power to implement treaties within provincial jurisdiction

— complicates Canada's role in international negotiations. Interprovincial barriers to trade sap Canada's competitiveness. And divided authority in fields such as research and development, education, and training may slow down efforts to ensure greater competitiveness globally.

Perhaps most debilitating is that Canadians' extraordinary preoccupation with their own domestic discontents — French-English relations, regional conflicts, and the Constitution — drain energy and resources, and hinder their ability to focus on responses to global challenges.

The contrast with other small, open, vulnerable countries such as Sweden or Denmark — which have more unitary systems, which are culturally and linguistically homogeneous, and which have closer ties among business, government, and labor — is striking. It is not easy for Canadians to make collective decisions about the terms on which they will participate in the global economy of the magnitude I am talking about. The lesson seems to be that Canada simply must adapt to market forces, because it lacks the unity to plan its role in the world.

It could be argued that, in the face of global challenges, a decentralized federalism is a luxury Canada cannot afford, and that we should try to emulate the strategies of countries such as Sweden. One can certainly make a case for centralization — for strengthening the federal government's treaty power, for increasing its ability to police the Canadian common market, or for giving it greater jurisdiction over fields, such as education, that are vital to future competitiveness. And one can certainly worry about the effects of the increasing international role of provinces and even cities, or about the high costs of the need to engineer federal-provincial coordination.

My sense, however, is that it is totally unrealistic to call for fundamental changes in Canadian institutions and society. Canada has been dealt a hand that includes diversity and divided authority, and it has got to play it. Canadians should try to maximize their strengths, not deny them. Massive centralization is not likely, but major efforts must be made to improve federal-provincial coordina-

tion. Some progress has been made here — for example, in provincial involvement in the free trade negotiations.

The largest question, of course, is whether Canada's form of nation-state will continue to exist, especially given the failure of the Meech Lake Accord. It is odd that, as Europe moves at a rapid pace toward integration, Canada is going the other way. There are many parallels between Canada's Confederation and the European Community, and Canadians may have something to learn from the EC's institutions. But the parallel is flawed, in the fundamental sense that while the Europeans are building institutions, Canadians may be in the process of dismantling them. The dynamics are quite different. So my sense is that Canada is extraordinarily vulnerable. A deeply divided society, a regionalized economy, and a decentralized federalism all make it harder to respond to global challenges.

Conclusions

Clearly, globalization is a fundamental threat to the traditional nation-state. Greater interdependence and the international flow of capital and ideas have eroded the political authority vested in the nation-state and its ability to control them. Moreover, the nation-state's span of control is too narrow to cope effectively with many global problems.

One result of this is the flow of power to supranational institutions such as the European Community. It is clear that if certain challenges — to the environment, for example — are to be met, international and even global institutions must be greatly strengthened. Each day seems to suggest the emergence of a global public opinion, but it must be given political form. That is not going to happen quickly, however, and may not happen at all. If it does, it will further reduce the ability of citizens to influence events through their democratic politics. Indeed, it is not just bureaucrats and politicians who lose when the autonomy of nation-states is constrained; it is also citizens and political democracy. So, the building of international institutions must be accompanied by domestic reforms that

strengthen a country's ability to make difficult decisions and to build consensus.

Another result of globalization may be a flow of power downward — from national to regional and even municipal levels. These are the arenas in which democratic politics may be most viable, and in which the most can be done to affect the quality of day-to-day life. For the moment, however, the nation-state remains the dominant political form; it may be obsolete in many ways, but we have barely begun to think about alternatives.

4 Effecting Change: Do We Have the Political System to Get Us Where We Want to Go?

Robert A. Young

Is Canada's political system capable of getting us where we want to go? This is the sort of vast and complex question that political scientists like me generally are content to leave to the pithy dispatches of the wiser columnists and to the degree of arch of TV interviewers' eyebrows.

In recent years, however, many journalists have made critical and sometimes despairing assessments of Canadian politics, so I will proceed by laying out a theory of politics that has underpinned many of these gloomy analyses. This is the theory that narrow interests tend to triumph over the general good. It was first formalized by political economist Mancur Olson in a book entitled *The Logic of Collective Action*,[1] and his model is discussed in the first section. In the second section, I show how views similar to Olson's have contributed to recent accounts of how Canadian public policy is made. In the third section, I argue that contemporary policy trends largely contradict these dire diagnoses, and I suggest possible reasons why the theory is not working very well. In the last section, I address some of the defects of the political system, and I propose some institutional

1 Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups*, 2nd ed. (Cambridge, Mass.: Harvard University Press, 1971).

changes that could strengthen its core — the competition among political parties.

In this chapter, I understand a "political system" to mean the mechanism by which citizens' preferences are processed through institutions to result in public policies. I take "we" to refer to all citizens of Canada. And I certainly will not ask *where* we want to go, because a fundamental characteristic of modern societies is that interests and opinions are heterogeneous. The real question here, then, is: Do we have a system that registers preferences accurately and integrates them efficiently? If so, we are on track and *en route*.

The Problem of Collective Action

Public goods are benefits — such as clean air, the nuclear umbrella, and lighthouses — that people cannot be excluded from enjoying. Once provided, they are available to all. When such goods are supplied, people are tempted to try to avoid paying for them while still consuming them — that is, they try to "free ride".

Olson's theory of collective action is built around this phenomenon, since it affects the capacity of various interests to organize and secure public policies that benefit them. In this model, the collective benefits that organized groups seek from the state are like public goods. If the Canadian Construction Association, for example, lobbies successfully for a tax break, all contractors benefit whether they are members of the organization or not. Under these conditions, free riding may be a rational strategy, and whether interested people will organize to engage in political action becomes a problematic matter.

Olson argues that small groups mobilize more readily than large ones. When few actors are involved, each potential member has relatively more at stake, and each member's contribution — or lack of it — to collective action is both visible and significant to the group's success. In contrast, large "latent groups" of people sharing a common interest will tend to remain unorganized even when collective action would benefit each member. This is because, as the size of the group increases, the proportional benefits for any single

member tend to be smaller, the costs of organizing are higher, and the marginal contribution of any one member to the collective success diminishes. In such circumstances, free riding is commonplace:

> [T]he individual in a latent group has no incentive voluntarily to sacrifice his time or money to help an organization obtain a collective good; he alone cannot be decisive in determining whether or not this collective good will be obtained, but if it is obtained because of the efforts of others he will inevitably be able to enjoy it in any case.[2]

The practical result of these dynamics is that organizations representing the interests of large numbers of people are unlikely to form. If they do, the relative sizes of their memberships and the quantity of resources they can muster will not correspond to the underlying distribution of preferences in society. In contrast, groups representing small numbers of very interested actors will be able to mobilize members and political resources in the form of money and expertise. As a consequence of this dynamic, the political process comes to be dominated by narrow interests. Policy formation becomes a struggle of each special interest against all, as groups engage in "rent seeking" — spending resources to get the policies they want, and achieving net benefits for themselves at the expense of everyone else. Policy incoherence is the minimal result. At the extreme, just as in the "tragedy of the commons", the general interest is gradually eroded to the extent that the system breaks down because of mounting economic costs or a crisis of legitimacy.

In its less cataclysmic forms, the problem of collective action as sketched here has been very influential. It preoccupies the Public Choice school, the most substantial recognition of which was James Buchanan's 1986 Nobel Prize. It has influenced neo-Marxist theory,

---

2 Ibid., p. 134. Exceptions occur when people are coerced into joining large groups or when they must adhere in order to secure some benefit available only to members — such as the insurance and maps available to members of associations that lobby for better roads.

especially in Europe. More concretely, the model of special-interest politics has underpinned influential critiques of Canadian political processes and public policy.

Pathological Politics in Canada

In the late 1970s and early 1980s, government regulation in Canada was exhaustively studied by the Ontario Economic Council, the Law Reform Commission, the Lambert Commission, and the Economic Council of Canada. The most incisive studies of industrial regulation concluded that its extent and operation were not explained by the standard arguments about natural monopoly, destructive competition, and consumer protection. Instead, the process could be characterized as "an exercise in political brokerage among competing interests, each seeking to maximize its self-interest, usually by increasing its distributive share of society's resources at the expense of other interests."[3] In this view, regulation might not protect the public; rather, the process could serve the regulated at the expense of the public. The root cause was the problem of collective action:

> [I]t is an observed fact that non-producer interests rarely participate seriously in this process. The explanation for this lies principally in the fact that the regulated industry has a highly concentrated stake in the regulatory outcome, while consumer interests are widely diffused across the myriad of goods and services typically consumed in a lifetime.[4]

If the state did not help overcome the barriers to organization faced by consumers, or if regulators did not take the public's interest into account, consumers would "systematically be 'nickelled' and 'dimed' into economic oblivion, dying the death of a thousand near-invisible

3 Michael J. Trebilcock, Leonard Waverman, and J. Robert S. Prichard, "Markets for Regulation: Implications for Performance Standards and Institutional Design," in Ontario Economic Council, *Government Regulation* (Toronto: Ontario Economic Council, 1978), p. 35.

4 Ibid., p. 54.

cuts."[5] This, of course, is now a routine analysis of the regulatory benefits conferred on doctors and other professionals, trades unionists, and farmers protected by supply-management systems.

In trade policy, similar lines of argument flourish. The standard account of tariffs and other forms of protection is that they are provided by governments, at great cost to all consumers — though at insufficient cost to any one of us to make us protest — because politicians cannot resist the tremendous pressure exerted by narrow coalitions of producer groups (both business and labor), especially when industries are regionally concentrated (as textiles are in parts of Quebec). Analogous arguments figured prominently in the debate over the Canada-U.S. Free Trade Agreement. Supporters of the deal blasted the "self-interested protectionism"[6] of the many groups mobilized against it: "What these self-appointed spokesmen of political independence for Canada are fearful of losing is really the power of Canadian governments to shift the burden of their own privileges on the rest of us."[7] And, of course, the deal's opponents portrayed its supporters as a single, narrow, highly interested and well-financed group — "corporate Canada and the multinationals"[8] — which trampled Canadians' common interest in preserving national autonomy.

The collective-action problem is readily generalized to industrial policy. Bill Watson, arguing from the Right, has portrayed subsidies to business as being dispensed to concentrated groups because the

---

5 Michael Trebilcock, "Winners and Losers in the Modern Regulatory State," in K.J. Rea and J.T McLeod, eds., *Business and Government in Canada*, 2nd ed. (Toronto: Methuen, 1976), p. 367.

6 Barbara McDougall, "Political Perspectives," in Jeffrey J. Schott and Murray G. Smith, eds., *The Canada-United States Free Trade Agreement: The Global Impact* (Washington, D.C.; Montreal: Institute for International Economics and the Institute for Research on Public Policy, 1988), p. 186.

7 Jean-Luc Migué, "True Independence through Free Trade," in Marc Gold and David Leyton-Brown, eds., *Trade-offs on Free Trade* (Toronto: Carswell, 1988), p. 452.

8 Daniel P. Drache, "The Mulroney-Reagan Accord: The Economics of Continental Power," in Gold and Leyton-Brown, eds., *Trade-offs on Free Trade*, p. 86.

unorganized mass of taxpayers has little information and no incentive to resist.[9] From the Left, Bill Coleman favors a proactive industrial policy, but shows that Canadian business is organized on a narrow, sectoral level, rather than being integrated into peak or umbrella associations that could participate responsibly with government in planning economic policy. Because of this organizational structure, Canadian business is trapped in special-interest advocacy, to the detriment of the general interest in positive structural adjustment.[10]

Tax policy is another obvious example. Tax loopholes — especially precisely designed deviations from a comprehensive tax base — may be carved out to satisfy narrow groups. The rollback of the 1981 MacEachen budget, which aimed to eliminate some tax expenditures, was caused by the logic of collective action. As Bruce Doern has noted:

> This proposal provided for an infinitesimal gain to the members of a dispersed constituency of largely middle class and upper income Canadians. It provided for losses to powerful and cohesive economic interests. It rightfully earned the Liberals little support and much criticism.[11]

Such dynamics hurt all Canadians, because tax rates are higher than they would otherwise be. According to David Wolfe's study for the Macdonald Royal Commission, a large part of Ottawa's structural deficit has been caused by tax expenditures introduced since 1971; in order to close these loopholes, the "broadest possible constituency" would have to be mobilized.[12]

---

9 William G. Watson, *A Primer on the Economics of Industrial Policy* (Toronto: Ontario Economic Council, 1983), esp. chap 2.

10 William D. Coleman, *Business and Politics: A Study of Collective Action* (Montreal: McGill-Queen's University Press, 1988).

11 G. Bruce Doern, "Liberal Priorities 1982: The Limits of Scheming Virtuously," in G. Bruce Doern, ed., *How Ottawa Spends Your Tax Dollars 1982* (Toronto: Lorimer, 1982), p. 10.

12 David A. Wolfe, "The Politics of the Deficit," in G. Bruce Doern, ed., *The Politics of Economic Policy* (Toronto: University of Toronto Press, 1985), p. 155.

Conversely, the whole expenditure process can be seen as driven by narrow interests. These groups may be linked to departmental heads and to ministers, who logroll by supporting higher spending on each other's special constituencies.[13] In a rich new analysis of central-government expenditure in Canada, Donald Savoie shows how the concentrated forces behind ministerial "spenders" outweigh those supporting the "guardians" of the public purse. Moreover, among those who can influence expenditure levels, Savoie finds a perverse phenomenon analogous to the case of a large group of people who have agreed to split equally the tab for a meal: there is no incentive to be frugal then, because "[n]obody wants to miss out on the best food while having to pay for someone else to eat it."[14] Those interests poorly represented at the table lose out immediately, of course. But so, in the long run, does everyone engaged in "spending by comparison," as the deficit mounts and the economy drags.

Through the collective-action prism, one cannot capture all of politics — and certainly not all of Canadian politics. But these examples of its application should have the familiar ring of ideas in general currency in this country. And the model can be applied as well in the realm of social policy and environmental politics — where general public concern, which is way out ahead of government policy, is stymied by powerful producer interests. It has even been pushed into the constitutional sphere, as two examples will suffice to show.

The Canadian Charter of Rights and Freedoms recognizes some fundamental rights of all individual citizens, but one of its most striking features is its codification of the collective rights of various groups. The degree of protection afforded to particular minorities varies, however, and further variation would have been introduced by the Meech Lake Accord. Analysts have not failed to note that "the most vulnerable and least powerful minorities are those least likely

---

13 Douglas G. Hartle, *The Expenditure Budget Process in the Government of Canada* (Toronto: Canadian Tax Foundation, 1978), esp. pp. 108–112.

14 Donald J. Savoie, *The Politics of Public Spending in Canada* (Toronto: University of Toronto Press, 1990), pp. 19–20, chap. 13.

to have had their concerns articulated."[15] Some small and weak groups have indeed been ignored, but it is also true that some very general rights, such as a right to property or to strike, are not found in the Charter. Presumably, the Charter's attention to the rights of particular minorities reflects the difficulty of mobilizing support for such general rights.

Federal-provincial relations, finally, have proven amenable to analyses based on the conflict between narrow demands and the general interest. If one assumes that only the central government can promote the common, national interest, then "Canada" is essentially a public good, one which allows for the fuller realization of citizen, group, and even provincial objectives. But according to many who share this view, all provinces necessarily encompass a narrower range of interests, the demands of which their governments amplify. Moreover, these governments plan socio-economic development according to distinct objectives: they "work toward the creation of limited versions of a politically created provincial society and economy, and the national government works toward the creation of a country-wide society and economy."[16] Hence, there are policy conflicts; and the provinces tend to free ride, grazing unrepentently on the Canadian commons while refusing to pay by moderating their own demands. As Pierre Trudeau has observed, they have all "enrolled in the school of blackmail of which Quebec was the founder and top-ranking graduate."[17] In this perspective, Ottawa must retain power sufficient to coerce the provinces and stop free riding.

All of the foregoing accounts of how the political process has worked in various policy fields are familiar to people who follow

---

15 Evelyn Kallen, "The Meech Lake Accord: Entrenching a Pecking Order of Minority Rights," *Canadian Public Policy* 14 (Supplement, September 1988): 107–120.

16 Alan C. Cairns, "The Governments and Societies of Canadian Federalism," *Canadian Journal of Political Science* 10 (December 1977): 706.

17 Pierre Elliott Trudeau, "Say Goodbye to the Dream of One Canada," in Roger Gibbins, ed., *Meech Lake and Canada: Perspectives from the West* (Edmonton: Academic Printing & Publishing, 1988), p. 69.

Canadian politics. Their common foundation is that the process does not produce policies that are in the interests of most or all Canadians. Instead, the system tends to register the narrow, unrepresentative demands of special interests. In the struggle of the few against all, the relatively small group with a lot at stake tends to win out, because those who constitute majorities have little incentive to organize while facing considerable obstacles to doing so. An Olsonian political process results in necessarily nefarious policy outcomes. But has this really been the pattern in Canada?

The Canadian Policy Experience

In recent years, we have witnessed policy trends that broadly contradict the predictions derived from the logic of collective action. Rather than selective interventions that benefit particular well-organized groups, the overall movement is toward "horizontal" policies that apply to all social actors in a nondiscriminatory fashion. I do not want to suggest that the precise content of such policies has been desirable, or that it is satisfactory to achieve a neutral policy simply by rolling back the state from some area of activity. But a quick review of the fields covered above shows that selective intervention has been on the decline for some time.

Consider regulation. Over the past decade, there has been a substantial reduction in industrial regulation — that is, in the administrative setting of prices, service quality, entry, and exit. Deregulation has been most thorough in energy, but it is also evident in financial services, telecommunications, and transport. In this last sector, too, under the "user pay" principle first accepted by the Liberal government of 1980–84, transportation subsidies have been capped (the Crow Rate) or cut (Via Rail) or made more transparent (and therefore assailable). Firms and sectors and narrow groups of consumers now have fewer opportunities to capture regulatory agencies and benefit at the expense of the whole public. Where governments have increased their regulatory presence, they usually have done so through horizontal measures that affect all economic activity. Competition policy has been strengthened at last. Advances

have been made in many areas of health, safety, and fairness (HSF) regulation such as workplace standards, pay equity, and pollution control. Sometimes, these measures have been introduced at the expense of narrow and powerful interests such as tobacco companies and major polluters. It is true that concentrated resistance continues, especially on the environmental front, but HSF regulation seems to command broad public support, and it is here that progress is being made. Like industrial deregulation, the spread of HSF regulation runs contrary to predictions derived from Olson's model.

There is always resistance to trade liberalization. Forgetting the Free Trade Agreement for now, we still witness strong pressures to maintain protection in footwear and textiles, agriculture, and financial services, and sometimes these have been successful. But these are minor variations on a dominant theme. The big Canadian trade story over the whole postwar period is the dramatic cuts in border measures that protect domestic producers. The overall momentum towards freer trade has not been halted by narrow interests.

In recent years, much the same can be said of industrial subsidies in the form of grants, loans, and loan guarantees. These increased through the 1960s and 1970s, as governments sought to compensate for increased international competition, to reduce regional disparities, and, in the recession of the early 1980s, to help failing firms. Lots of money is still available to small business, and to high-technology firms (often under the cover of national defense), and to agriculture (to counteract U.S. and European Community subsidies), and some provinces are still active in the field (especially Quebec, through the noncountervailable maneuvers of the Caisse de Dépôt). But direct, targeted aid has declined. One need only recall the heady days of the Department of Regional Economic Expansion, the pulp and paper modernization program, the big bailouts, and especially the grants made under the Petroleum Incentives Program to appreciate how great has been the decline in state assistance to particular sectors and firms.

Some of this assistance went underground during the 1970s and 1980s, to be delivered less overtly through the tax system. One

such device was the Scientific Research Tax Credit, which cost enough in foregone revenue to fund the National Research Council in perpetuity. Some sectors still benefit from similar tax expenditures, such as the lower rate for manufacturing and the depletion allowances for mining. But the trend is toward eliminating special provisions that benefit narrow interests. Allan MacEachen had to retreat, but Michael Wilson has not, and the thrust of tax policy over the past six years has been to broaden the tax base and to lower rates — that is, to create a nondiscriminatory fiscal environment for Canadian business. The same story holds for the personal income tax, where Ottawa has lowered rates and closed loopholes. And the goods and services tax (GST) is a move in the same policy direction. It is true that some powerful interests, such as the banks and the farmers, have been able to win special concessions. Overall, however, the GST represents a massive tax shift from manufacturing output to the service sectors, so that taxation will not distort relative prices and capital flows: it is a homogenizing policy. The special-interest-politics model would explain precisely the reverse trend in taxation, had it occurred.

Government expenditure has proven as difficult to control in the 1980s as it was for Mr. Trudeau in the late 1970s. Each year's large deficit swells the national debt. The annual interest payments on this debt are about $40 billion — more than enough to double all Old Age Security payments *and* the foreign-aid program — and they continue to rise. Hence, total federal government spending also continues to increase. In contrast to debt payments, however, normal program expenditures have been growing slowly; in fact, over the 1984–89 period, they increased at less than the rate of inflation. Due to economic growth and some tax increases, budgetary revenues have increased at three times the rate of expenditures. As a result, Ottawa's annual financial requirement — the new borrowing necessary to cover the annual shortfall in revenues — has been declining. It stood at 6.7 percent of GDP in fiscal year 1984/85 and was about 3.7 percent of GDP in 1988/89.[18] Continuing high interest rates

18 Michael H. Wilson, *The Fiscal Plan* (Ottawa, April 27, 1989), Table A.37.

make debt charges, the deficit, and total spending expand more than most Canadians — who are debtors, not creditors — could desire. But program expenditure growth is modest. The special-interest pigs may still be at the trough, but none is getting much more than it used to.

On the constitutional side, interest-group politics continued at a ferocious pace during the Meech Lake debate, especially around the issue of how the distinct-society clause would have affected the collective rights recognized by the Charter. For theory based on the logic of collective action, however, two facts are troublesome. First, the fundamental freedoms, democratic rights, and legal rights of all individuals, which were first enshrined in 1982, have not been impinged upon by subsequent constitutional discussions, and governments' rare use of the "notwithstanding" clause testifies to the broad support that these elements of the Charter command. Second, the major organized players in debates about Meech Lake's effect on the Charter were women, ethnic communities, and the aboriginal peoples.[19] These are large, dispersed groups that should have been difficult to mobilize, but they fought effectively in the constitutional arena, in part because the barriers to collective action which they faced were largely overcome by government funding.

As for federal-provincial relations more generally, a few observations will suffice in this time of uncertainty. The centralist position depicts the provinces as special-interest captives that ignore the common good. However, a contrary position within the collective-action framework depicts Ottawa as deploying its power, not to guard and promote the general interest, but precisely to satisfy the demands of narrow groups. The central government responds to sectoral, regional, and ethnic pressures whenever these can be effectively mobilized. So, in a view widely shared on the periphery, Ottawa's economic policy is the creature of central Canada (or of Quebec alone, or of Ontario). A more careful analysis suggests that Ottawa's policies

19 See Alan C. Cairns, "Citizens (Outsiders) and Governments (Insiders) in Constitution-Making: The Case of Meech Lake," *Canadian Public Policy* 14 (Supplement, September 1988): 121–145.

on unemployment insurance, tariffs, energy prices, transport rates, and capital markets can cause and probably have caused greater price distortions within the Canadian common market than those created by narrow, provincialist activities.[20] As was noted above, however, many of these targeted policies are on the wane in Ottawa, so the underlying model does not hold up very well. The centralists' image of the voracious, special-interest-driven provinces does not stand up either. As some colleagues and I have shown, the propositions that constitute the image of "province building" are not supported by the evidence. In particular, the provinces have not shown a great increase in planned intervention with the objective of reshaping their economies, nor is there always an essential conflict between federal and provincial policies.[21] Several provinces continue to support a strong central government capable of redistributing revenues their way, as does Ontario (for other reasons), and policy fields are characterized sometimes by conflict, sometimes by cooperation, and sometimes by creative competition.

Why is it, in all these areas, that the dismal diagnosis of politics that flows from the logic of collective action has not held up in Canada? A full explanation is far beyond the scope of this chapter, but some factors should be mentioned.

Canada is an open economy, and external forces can outweigh the demands of narrow, well-organized groups. This is true in trade policy, where Canada is locked into the multilateral process under the General Agreement on Tariffs and Trade, and in transport policy, where new Pacific-rim markets and spillovers from U.S. deregulation have helped drive change.

With respect to group formation itself, several phenomena offset Olson's logic. Some public-interest groups do form, despite the odds.

---

20 See John Whalley, "The Impact of Federal Policies on Interprovincial Activity," in M.J. Trebilcock et al., eds., *Federalism and the Canadian Economic Union* (Toronto: Ontario Economic Council, 1983).

21 R.A. Young, Philippe Faucher, and André Blais, "The Concept of Province-Building: A Critique," *Canadian Journal of Political Science* 17 (December 1984): 783–818.

This can occur, first, when an organizational entrepreneur is prepared to invest in overcoming the barriers to collective action, or when funding is available from governments to private donors, or when altruism and a sense of public service goad individuals into neglecting the pure calculus of material self-interest. Second, large groups may not coalesce to oppose narrow interests, but small ones sometimes do, and in pressing their selfish cases they may advance the general cause. Business users of telecommunications services, for example, weigh into some regulatory battles on the consumer side, just as big importers, such as department-store chains, can fight trade protection. As well, Canadian business as a whole is much better organized than it was 15 years ago. The Business Council on National Issues may not be a fully representative peak association, but it has been a powerful voice against the sort of selective intervention that benefits special interests at the expense of business as a whole.

Moreover, as our understanding of rent seeking has grown, the ideology of nondiscrimination has also been strongly advanced by academics, by bodies like the Macdonald Royal Commission, and by an influential segment of the journalism profession. This fondness for framework policies that establish a "level playing field" now helps delegitimize any demand for targeting policy by characterizing it as self-interested special pleading, which, if satisfied by government, must impose costs on the whole society larger than any general benefits that can accrue. The burden of proving the contrary now rests with those making demands.

Finally, the institutions through which preferences are processed can offset the distortions in political pressures that result from the different propensities of groups to organize. At a simple level, procedural changes can channel political interaction and exchange. For instance, the inclination of ministers to logroll and to spend on each other's client groups can be countered by establishing a zero-sum spending game — as in the envelope system introduced by the Clark government — or by creating a powerful central team of ministers to vet proposals — such as the Mulroney government's

Expenditure Review Committee. Over time, these devices atrophy or are end run but they can have some impact.

Much more fundamentally, our system of parliamentary government constrains group politics. The logic of collective action finds its fullest expression in policy in a congressional system, where organized interests bring their weight to bear on independent legislators. Responsible government, which links executive and legislature, allows for greater autonomy from such pressure. In our system, relatively long-lived and powerful governments can resist intense demands for protection from change. The control of the legislative agenda by the executive, along with the associated party discipline, precludes logrolling by legislators. And strong parties can integrate policy around ideologies and campaign platforms that are inhospitable to the demands of at least some powerful organized interests. It is true that these features of the system have been eroding in Canada; in particular, the major political parties often seem to function as interchangeable brokers that mediate the demands of competing groups. Below, I suggest ways to strengthen their capacity to produce coherent policy, but given the makeup of Canadian political institutions as well as the other factors now working against special-interest politics, we should not be surprised to find that the Olson model is not much manifest in recent Canadian practice.

Strengthening the System

Before this chapter starts to seem an *apologia* for Canada's system or for the current federal government, I should hasten to point out some important shortcomings. Although Canadian policy in many fields is not obviously driven by narrow interests, in others — public works, health, agriculture, resources — such forces arguably predominate. And they do so rather quietly and profitably. Moreover, in some fields, the Mulroney government has removed policy distortions by extricating the state from all involvement, by neutralizing government, rather than by determined action in accord with majority preferences. Such retreats can actually benefit concentrated interests, which may do even better in unfettered economic markets

than they can in the political marketplace. In other instances, as in regional development policy, satisfying the demands of narrow interest groups would entail overall welfare gains to society, but the delegitimization of "special pleading" tilts the balance against government action. The interest-group struggle continues in other policy areas, but often the system is biased against the weakest groups: Canada still lacks an equitable set of adjustment programs for displaced workers, for example, and social benefits still are not targeted sufficiently toward the truly needy. There also remains an undersupply of collective goods that obviously would benefit majorities, such as adequate systems of day care and employment training, and greater environmental protection.

Finally, there is a serious state of public disaffection from the political process and widespread cynicism about it. One cause was the Meech Lake process, through which many citizens discovered that intense participation in interest groups was not enough to guarantee influence over the elected politicians who command sovereign power. This has been disillusioning, but ours is, after all, a system of representative democracy. Nevertheless, that system does not accurately register preferences through the electoral process. Clyde Wells' government, for instance, was elected with 47 percent of the Newfoundland vote. More seriously, the 1988 federal election was effectively a referendum on the free trade deal, and a clear majority of Canadians voted for parties opposed to it, yet the Progressive Conservatives were returned with a substantial majority of Commons seats and the deal was passed. In sum, Canada's system may not be pathologically driven by concentrated interests, but all too often the weakest members of society are not getting what they need and majorities are not getting what they want.

How to Harness Faction

The essential question that confronts us is how to harness faction. How can preferences be accurately reflected and justly reconciled in public policy? Enlightened despotism is not an option in advanced

democracies, and even in this neo-conservative age a permanent reduction in state power is neither probable nor desirable. Like-minded individuals, in larger or smaller numbers, more or less organized, will continue to try to have their preferences realized in policy. How should this political competition be organized? What institutions will structure competition so that it is efficient, in the sense that most people get the policies they want at the least cost?

One way to organize competition would be to facilitate group activity. We could take further steps toward U.S.-style "interest-group liberalism", in which organized interests have a lot of freedom to compete for the public's resources in the form of money and votes and to deploy them in the political process in competition with other groups. Here, the legislature is a pure register of group pressures, and the policy result is often the parcelling out of benefits to special interests or even the delegation of state power to them.[22] This option would require strengthening legislators' capacity to initiate bills, to determine expenditures, and to oversee the implementation of policy by cabinet and the bureaucracy. Party discipline would have to be relaxed, notably through weakening the convention that major pieces of legislation are matters of confidence. Recently, Canada has moved some distance in this direction through changes in the rules of the House and its committees, and further innovations — such as vetting government appointments — have been mooted.

There are, however, two major objections to this route. The first, familiar by now, is that interest-group politics tends to be undemocratic politics. Some latent groups are more readily mobilized than others, and these are either narrow interests — in which case the least unpleasant result is policy incoherence — or they are broader interests, such as the "business community", which can readily draw on members' money and expertise.[23] Wealth is a powerful political solvent — as the political action committees in the

22 See Theodore Lowi, "The Public Philosophy: Interest-Group Liberalism," *American Political Science Review* 61 (March 1967): 5–24.

23 See Claus Offe, "Two Logics of Collective Action," in John Keane, ed. *Disorganized Capitalism* (Cambridge, Mass.: MIT Press, 1985), pp. 170–220.

United States best demonstrate in this context — and no rules about contributions in cash or in kind can quite dilute its potency when groups and interactions proliferate. In standard theories of pluralist democracy, the voting power of members of large groups is reckoned to countervail the financial resources of the few, but when election campaigns are dominated by television — which requires still more money — the leaders of broadly representative groups are less and less able to deliver members' votes. Moreover, in the inter-election period, when policy is actually formulated, large groups are disadvantaged because it is hard to sustain a public involvement that requires transcending the material incentive structure so accurately described by Olson.[24] The interest-group playing field simply is not a level one. To march toward it can be advocated seriously only by those who distrust the effective participation of majorities. Even then, sooner or later, exclusion and alienation would produce disruptive social movements or illiberal populist parties.

The second obstacle to interest-group liberalism in Canada is that unbridled group competition is antithetical to the core of our constitutional system. Responsible government rests fundamentally on a united executive maintaining the confidence of the legislature, which, in turn, rests on party discipline. Majority control of the House of Commons is not essential, but responsible government certainly does demand that party leaders can negotiate about policy with the dispatch and credibility that come only from being able reliably to deliver party members' votes in the legislature. In the U.S. system, the executive need not work in tandem with the legislature. It has an independent legitimacy and power derived from the presidential election and the resources commanded by the president. This check alone permits interest-group politics to flourish in Congress. Unless Canadians are prepared to abandon a system of responsible government based on the fusion of executive and legislature, steps to increase the autonomy and policy capacity of individual Members of Parliament are perverse. The way to proceed is to strengthen the

24 See Albert O. Hirschman, *Shifting Involvements: Private Interest and Public Action* (Princeton, N.J.: Princeton University Press, 1982).

party as a mechanism for registering and accommodating preferences.[25] We should seek structural changes that bolster the capacity of parties to aggregate opinion into clear platforms, which can then serve mandated, responsible governments as policy agendas.

Canada's political parties desperately need a stronger capacity to formulate policy. The major parties are starved for money, much of which is spent on advertising. They are incapable of harnessing expertise in a sustained fashion. They generate low levels of member commitment, with flurries of engagement during leadership races and election campaigns. In a self-reinforcing cycle, people with genuine policy concerns seek out interest groups to advance their causes, and the parties degenerate further into domination by leaders and their personal entourages, who play the politics of image and strategic vagueness, who take office with little sense of direction, and who end up as brokers among interest groups. It is appalling that the national Liberal party has a smaller expert staff than, say, the Canadian Bankers' Association or the Canadian Pulp and Paper Association, and publishes much less than the Canadian Tax Foundation. How can it hope to integrate policy sensibly across all fields and to control a bureaucracy when in office?

Two kinds of reform would improve the system. I will not address them in detail, nor will I counter possible objections, because this has been done very well in a recent book by Tom Kent, the distinguished public servant.[26] I borrow his ideas because they are apt.

The first set of reforms would improve the policy process within parties. Measures are needed to regularize membership status in parties, to tighten controls on donations, and to increase the level of public funding. Kent argues as well for shorter campaigns and for much more free access to the electronic media. Together, such

25 For a contrary view, but one based on the proposition that policymaking is now inherent in a bureaucracy that is not disciplined and directed by coherent party platforms, see A. Paul Pross, *Group Politics and Public Policy* (Toronto: Oxford University Press, 1986), pp. 248–261.

26 See Tom Kent, *Getting Ready for 1999: Ideas for Canada's Politics and Government* (Halifax: Institute for Research on Public Policy, 1989), pp. 9–50.

changes would augment the policy capacity of Canada's political parties, while providing some real incentives for these organizations to accommodate and integrate the policy preferences of members and the public. This area now falls within the mandate of the Royal Commission on Electoral Reform and Party Financing (the Lortie Commission). Reforms along these lines are probable.

Beyond this, one single institutional change would have the effect of reasserting the primacy of policy-oriented, responsible parties — while ameliorating some other systemic problems at the same time. This is to move from the current, single-member plurality electoral system to one based on proportional representation (PR). There are many variants of PR, but they share two common features: the ridings are multimember — so that a whole province such as New Brunswick could be one constituency — and voters choose their representatives, more or less directly, according to their party. If 60 percent of New Brunswickers voted Progressive Conservative, then six of ten New Brunswick MPs sent to Ottawa would be PCs.

A PR system provides a strong incentive for parties to differentiate themselves along programmatic lines. As well, the parties are able to attract candidates who find little appeal in the current unpleasant stew of intense constituency orientations and national-leader images. In a PR system, interest groups come to orient themselves around the parties, and to contribute to policy development within them. Most important, voters have a much stronger incentive to cast their votes on the basis of party platforms according to their genuine preferences, for they know that their votes will not be "wasted", as they are in single-member ridings. Finally, as political scientists have long recognized, a PR system would provide much more balanced regional representation within the ranks of the governing party or parties. No longer would hundreds of thousands of western Liberal votes, for instance, elect only one or two MPs.

An electoral system based on proportional representation would help span regional cleavages, but Canada is also a very localized country, and so Tom Kent combines his argument for PR with an ingenious suggestion that a Senate with limited powers be elected

from single-member constituencies. Senators could then take over MPs' current constituent-service and ombudsman functions, leaving major policy matters to preoccupy MPs.

This last suggestion, like much else in the scheme, is debatable. But the whole proposal merits discussion. Canada is one of only four western democracies — the others being the United States, the United Kingdom, and New Zealand — that do not use proportional representation. Yet this issue has been excluded, so far, from the deliberations of the Lortie Commission.

Canada has moved in recent years toward the politics of special interests, as organized groups have proliferated and as our institutions have been loosened to accommodate them. The most pernicious effects on policy of the underlying logic of collective action have been avoided because of conjunctural forces and the essential structure of our institutions. Now, Canadians should think seriously about strengthening those institutions of parliamentary democracy and responsible government. If we act along these lines, we will get more surely, fairly, and efficiently to wherever we want to go.

References

Cairns, Alan C. "Citizens (Outsiders) and Governments (Insiders) in Constitution-Making: The Case of Meech Lake," *Canadian Public Policy* 14 (Supplement, September 1988).

———. "The Governments and Societies of Canadian Federalism," *Canadian Journal of Political Science* 10 (December 1977).

Coleman, William D. *Business and Politics: A Study of Collective Action.* Montreal: McGill-Queen's University Press, 1988.

Doern, G. Bruce. "Liberal Priorities 1982: The Limits of Scheming Virtuously." In *How Ottawa Spends Your Tax Dollars 1982*, edited by G. Bruce Doern. Toronto: Lorimer, 1982.

Drache, Daniel P. "The Mulroney-Reagan Accord: The Economics of Continental Power." In *Trade-offs on Free Trade*, edited by Marc Gold and David Leyton-Brown. Toronto: Carswell, 1988.

Hartle, Douglas G. *The Expenditure Budget Process in the Government of Canada.* Toronto: Canadian Tax Foundation, 1978.

Hirschman, Albert O. *Shifting Involvements: Private Interest and Public Action.* Princeton, N.J.: Princeton University Press, 1982.

Kallen, Evelyn. "The Meech Lake Accord: Entrenching a Pecking Order of Minority Rights," *Canadian Public Policy* 14 (Supplement, September 1988).

Kent, Tom. *Getting Ready for 1999: Ideas for Canada's Politics and Government.* Halifax: Institute for Research on Public Policy, 1989.

Lowi, Theodore. "The Public Philosophy: Interest-Group Liberalism," *American Political Science Review* 61 (March 1967).

McDougall, Barbara. "Political Perspectives." In *The Canada-United States Free Trade Agreement: The Global Impact*, edited by Jeffrey J. Schott and Murray G. Smith. Washington, D.C.; Montreal: Institute for International Economics; Institute for Research on Public Policy, 1988.

Migué, Jean-Luc. "True Independence through Free Trade." In *Trade-offs on Free Trade*, edited by Marc Gold and David Leyton-Brown. Toronto: Carswell, 1988.

Offe, Claus. "Two Logics of Collective Action." In *Disorganized Capitalism*, edited by John Keane. Cambridge, Mass.: MIT Press, 1985.

Olson, Mancur. *The Logic of Collective Action: Public Goods and the Theory of Groups*, 2nd ed. Cambridge, Mass.: Harvard University Press, 1971.

Pross, A. Paul. *Group Politics and Public Policy*. Toronto: Oxford University Press, 1986.

Savoie, Donald J. *The Politics of Public Spending in Canada*. Toronto: University of Toronto Press, 1990.

Trebilcock, Michael J. "Winners and Losers in the Modern Regulatory State." In *Business and Government in Canada*, 2nd ed., edited by K.J. Rea and J.T. McLeod. Toronto: Methuen, 1976.

———, Leonard Waverman, and J. Robert S. Prichard. "Markets for Regulation: Implications for Performance Standards and Institutional Design." In Ontario Economic Council. *Government Regulation*. Toronto: Ontario Economic Council, 1978.

Trudeau, Pierre Elliott. "Say Goodbye to the Dream of One Canada." In *Meech Lake and Canada: Perspectives from the West*, edited by Roger Gibbins. Edmonton: Academic Printing & Publishing, 1988.

Watson, William G. *A Primer on the Economics of Industrial Policy*. Toronto: Ontario Economic Council, 1983.

Whalley, John. "The Impact of Federal Policies on Interprovincial Activity." In *Federalism and the Canadian Economic Union*, edited by M.J. Trebilcock et al. Toronto: Ontario Economic Council, 1983.

Wolfe, David A. "The Politics of the Deficit." In *The Politics of Economic Policy*, edited by G. Bruce Doern. Toronto: University of Toronto Press, 1985.

Young, R.A., Philippe Faucher, and André Blais. "The Concept of Province-Building: A Critique," *Canadian Journal of Political Science* 17 (December 1984).

5 The Hollowing Out of North America: Myth or Fact?

Robert Z. Lawrence

Conventional wisdom holds that North America — meaning the United States and Canada — increasingly is becoming a service economy and that our capacity to produce basic manufactured products is shrinking. As a result, many feel that North America is "hollowing out." Some interpret this in a relatively benign fashion to mean that world production of goods is becoming increasingly specialized. The manufacturing sector is still thriving, but North America is not producing the full array of manufacturing processes that it used to. Others, however, view hollowing out as ominous, taking it to mean that the United States and Canada are no longer manufacturing altogether. They believe that the two countries' ability to produce salable finished goods has not kept pace with their ability to do other things in the economy.

The view that North America is hollowing out and becoming a service-based economy is inaccurate; the United States and Canada have *not* lost their ability to manufacture goods. On the contrary, the production of goods has increased as rapidly as the production of services, and productivity increases in goods-producing industries have exceeded increases in the rest of the economy.

To appreciate the effects of rapid productivity growth in goods production, it is helpful to draw a parallel with the effects of rapid growth in agriculture in earlier times. Due to technological im-

provements in the late eighteenth and nineteenth centuries, productivity growth in agriculture was extremely rapid. People who once spent most of their time farming were able to do other things — essentially, they moved from the farms to the factories. Technically, this process may be termed "de-agriculturalization", but this would be misleading, since North America did not produce fewer agricultural products. On the contrary, agriculture became more efficient and needed fewer resources to produce the same output. In short, rapid productivity growth in agriculture allowed us simultaneously to meet our demands for farm products and to free up labor to engage in other activities. North America became "an industrial economy" because of rapid growth in agricultural productivity. In just the same way, North America is becoming a "service economy" because of rapid productivity growth in industry. Increased productivity in manufacturing over the past 20 years has allowed employment to shift from the factory to the service-producing industries. But just as the shift from the farms was not associated with a relatively slower growth in farm output, so, too, this shift from factories has not been associated with a relatively slower growth in industrial output.

Economic Performance over the Past Three Decades

Table 1 highlights the striking similarities between the economic performance of the United States and Canada over the past three decades. In both countries, there has clearly been a long-term shift in employment away from manufacturing. In 1960, 26 percent of the U.S. workforce was in manufacturing; by 1988, it was just 18.14 percent. In Canada, the decline was even greater, with the share of employment in manufacturing falling from 30.34 percent in 1960 to 15.70 percent in 1988.

Table 1 also indicates, however, that, due to the increase in productivity, these shifts in employment away from the manufacturing sector have not hurt the two countries' relative ability to produce goods. In both countries, over the long term, goods production has

Table 1

The Share of Goods Production in Canadian and U.S. Economic Output and Employment, 1960–89

	Canada		United States		
	Real GDP	Employment (manufacturing)	Nominal GNP	Real GNP	Employment (manufacturing)
1960	n.a	30.34%	49.90%	43.65%	26.00%
1980	39.60	17.21	43.00	42.17	20.79
1989	38.70	15.70	39.59	44.33	18.14

Note: Share of goods production in Canada's GDP is calculated at factor cost. U.S. data based on 1982 constant dollars; Canadian data based on 1981 constant dollars.

Sources: Bank of Canada; Data Resources Inc.; and United States, Department of Labor, Bureau of Labor Statistics.

grown as rapidly as has the production of services. Judging by real GNP — that is, as measured in constant dollars — the North American economy today is no more a services economy than it was 30 years ago. For the United States, goods represented 43.65 percent of GNP in 1960 and 42 percent in 1980. Interestingly, over the 1980s — the decade during which concerns about hollowing out were first raised — the share of goods in U.S. GNP actually increased, reaching 44.33 percent in 1989. In Canada, the share of GDP accounted by goods was virtually the same at the end of the decade as at the start — 39.6 percent in 1980 and 38.7 percent in 1989.

Productivity growth has been relatively more rapid in the production of goods than in the production of services because the former is more conducive to enhancing technological progress than the latter. Indeed, virtually all spending for research and development takes place in the manufacturing sector. At the same time, however, it should not be assumed that there is no scope at all for improving productivity growth in services. Prior to 1973, at any rate, while productivity grew more slowly in services than in goods, it nonetheless advanced in services at a healthy pace.

The relatively rapid productivity growth of goods has led the prices of goods to decline relative to the prices of services. The most dramatic example of this is in areas where technological progress has been extremely rapid — for example, in semiconductor chips. These lower prices have not been offset by a compensating increase in the demand for goods, with the result that, in nominal terms, spending on goods has declined relative to spending on services as a share of overall spending. Thus, the basic long-term features are a relatively constant share of goods in real output combined with declining shares in overall spending and employment.

The 1980s

Despite the appearance of large trade deficits in the United States and Canada since 1980, manufacturers have been able to increase output as rapidly as other producers in the two countries. Table 2 shows that between 1980 and 1987, when the U.S. trade deficit was growing dramatically, value added in manufacturing grew by 26 percent, while GNP increased by only 20 percent. During the same period in Canada, value added in manufacturing grew by 23 percent and GNP increased by 24 percent. Over the 1980s as a whole in both countries, manufacturing output grew at roughly the same rate as did GNP.

These data may come as a surprise to those who rely on anecdotal evidence and who believe that a trade deficit automatically implies shrinkage in the output of tradable goods. But a trade deficit does *not* mean that a country is losing its productive capacity; it simply means that a country is consuming (spending) more than it is producing.

Two different extreme outcomes, with very different implications for domestic output growth, are compatible with the emergence of a given trade deficit. On the one hand, demand by consumers could increase and be met by foreign suppliers. This would result in a trade deficit, but no decline in domestic supplies. On the other hand, foreign supplies could displace domestic supplies for a given level of

Table 2

Measures of Industrial Output for Canada and the United States, 1979–89

(1980 = 100)

	Canada				United States			
	Real GNP	Value-added manufacturing	Industrial production	Goods-producing industries	Real GNP	Value-added manufacturing	Industrial production	Goods-producing industries
1979	98	105	102	101	100	105	102	101
1980	100	100	100	100	100	100	100	100
1981	103	104	100	104	102	102	102	103
1982	99	92	91	97	99	96	95	98
1983	103	97	96	102	103	102	101	102
1984	110	105	108	109	110	115	112	112
1985	115	110	114	114	112	119	114	116
1986	118	111	116	116	117	121	115	118
1987	124	123	121	122	120	126	120	124
1988	130	130	128	128	126	n/a	126	132
1989	132	132	129	131	130	n/a	130	137

Note: Industrial production indexes include mining and utilities.

Sources: Bank of Canada; Data Resources Inc.; Organisation for Economic Co-operation and Development; and United States, Department of Commerce, Bureau of Economic Analysis.

overall demand. This would result in a trade deficit and a decline in domestic output and employment.

What happened in the United States over the past decade comes closer to the first outcome than to the second. A surge in the demand for goods in the United States was met partially by increased domestic production and partially through an increase in purchases from abroad. U.S. firms were able to increase their output as rapidly as output was increasing in general. This was not enough, however, to satisfy demand. As shown in Table 3, real spending on goods in the United States between 1980 and 1989 — calculated as spending on goods for consumption, investment, and government spending — increased by an astounding 43 percent. At the same time, real GNP was up only 30 percent, and production by manufacturing rose at a similar pace. While U.S. firms increased their output, they were unable to increase it as quickly as the market was growing. Thus, they lost market share.

This loss of market share should not, however, be interpreted as meaning that the United States is "deindustrializing". Rather, over the past few years, there has been a spending boom in general — and on goods in particular. As a result, U.S. domestic manufacturers have lost market share at home while expanding as fast as service producers.

In Canada, while the growth in real spending on goods began later in the 1980s — the surge is evident after 1984 — for the decade as a whole, Canadians seem to have matched the goods splurge of their southern neighbors. Nonetheless, between 1984 and 1989, Canadian manufacturing output also grew about as fast as Canadian GNP. It is really quite ironic that at precisely the time we have all become so aware of the shift toward services, the patterns of demand in our economies have shifted so strongly toward goods.

Some people have raised questions about the quality of the official data on which this analysis has relied. In particular, much of the measured growth in goods output in the 1980s took place in the production of computers, and the growth measures are highly sensitive to the methods used for determining computer prices and

Table 3
The Growth of Spending in Canada and the United States, 1979–89
(1980 = 100)

	Canada			United States		
	Real GNP	Spending	Spending on goods	Real GNP	Spending	Spending on goods
1979	98	96	100	100	102	104
1980	100	100	100	100	100	100
1981	103	104	107	102	102	104
1982	99	100	90	99	100	100
1983	103	102	95	103	105	106
1984	110	106	100	110	115	121
1985	115	112	107	112	119	125
1986	118	117	112	117	123	130
1987	124	123	120	120	127	135
1988	130	131	129	126	131	140
1989	132	136	142	130	134	143

Note: U.S. data based on 1982 constant dollars; Canadian data based on 1981 constant dollars.
Sources: Bank of Canada; Data Resources Inc.; and Organisation for Economic Co-operation and Development.

assigning them weights. In addition, other technical problems are alleged to exist with the data. Without discussing these problems in detail, I believe that, by and large, the qualitative nature of the story I have outlined here is correct. I am also quite struck by the similarities in the numbers for Canada and the United States, which suggests the U.S. numbers may be better than some allege.

Screwdriver Plants?

What about the quality of that production? Some observers suggest that not all industrial activities are created equal, that some types of goods production are more desirable than others — in other words, we may increase goods production, but in less desirable, lower-value-added types of activities. It is striking, for example, that the United States became a major recipient of direct foreign investment in the 1980s, and Canada has long been a major home for U.S. corporations. What has been the quality of the activity such investment has generated?

In a recent study of the setting up of Japanese auto manufacturing plants in the United States, I found a dramatic change in the way auto production is being carried out — one which rejects the notion that North America is hollowing out. One of the major innovations in Japanese manufacturing production, of course, is the use of "just-in-time" manufacturing. This approach involves assemblers minimizing on inventories and being supplied components on a continuing basis by suppliers who must be close at hand. The result is that, to realize fully the benefits of this system, Japanese automakers must rely on locally based suppliers for a wide range of parts. This is reflected in a rapid increase in local value-added manufacturing. Indeed, most Japanese automakers have announced their intention to have around 75 percent local content in their U.S.-made cars by 1992.

Fears that foreign companies are setting up manufacturing facilities in the United States only for simple assembly operations are unwarranted. Indeed, in a recent study, Paul Krugman and Paul

Graham found that foreign-based multinationals pay roughly the same wages as domestic U.S. companies and spend about the same share of their sales on research and development. In light of North America's expensive labor market and pool of highly skilled scientific and engineering talent, it would not make sense for foreign-owned firms to set up production here to perform menial tasks.

Prospects

Given the situations described above, what are the prospects for the manufacturing sectors of the U.S. and Canadian economies? Both countries will have to expand their manufacturing and industrial bases more rapidly than they expand the rest of their economies. Due to their high levels of consumption in the past decade and subsequent trade deficits, both countries are currently "net debtors". Unless a debtor nation continues to increase its borrowing, it has to begin to service that debt. Over time, this requirement for debt service will have to met by running smaller trade deficits and eventually moving into surplus

This adjustment process requires expenditure reductions — or, more precisely, that spending grow more slowly than production. As the growth rate of North American spending declines, goods will be released for export, and it will then be necessary to make sure that foreigners want to buy these products.

Two mechanisms for achieving this expenditure switching are possible. First, North American products can become relatively cheaper, either through a devaluation of the Canadian and U.S. dollars or by being offered for sale at lower prices. One way that the United States has adjusted to its position as a "net debtor" is through weakening pressure on the U.S. dollar, which makes U.S. products more competitive in world markets. Adjustment through a declining currency will not de-industrialize a country, but it will imply a lower standard of living for its citizens.

The second adjustment mechanism is to make products more attractive to buyers through improvements in quality, variety, and

so on, rather than through lowering prices. This is clearly the more desirable route.

Finally, if North American manufacturing is not hollowing out, why is overall productivity growth slowing? The answer actually lies in what is happening on the services side of the economy. Although employment in services and services production has increased over the past decade, productivity in this sector has not grown, and so overall economic growth is slowing down. The problem is not that North America has become too great a services-based economy, but simply that it has not been productive enough in supplying those services. As Canada and the United States increasingly become information-based societies — with a growing dependence on computers — one would have expected productivity in services, as opposed to goods, to have increased, since computer applications are mostly in information processing, not in manufacturing operations. However, that has not been the case.

In the eighteenth century, during the transition from an agricultural to an industrial economy, a group of people called "physiocrats" doubted the potential of industry because they believed that true wealth rested in the land — that real wealth came from growing things, not from making them. It is quite likely that people in the twenty-second century will regard as just as quaint the concern some currently have about whether or not services are genuine production.

6 How Much Government Is Good Government?

Ian A. Stewart

In drafting notes for ministerial speeches, particularly for the Minister of Finance, it often used to occur to me that it seemed particularly important to ooze an assurance one did not always feel. Economic policy is a confidence game. One can recognize that it is important for Michael Wilson and John Crow to continue to espouse the great effectiveness of monetary restraint and high interest rates in the hopes that inflationary expectations can be reshaped without the real toll that the policies themselves are designed to extract. Ministers must offer an assured interpretation of events and a confidence in the rectitude of redesigned government policies. In this chapter, however, I feel a lesser need to pretend an assurance that I do not feel.

The question of how much government is good government is not one that has any precise answer. Certainly, one cannot survey the relative sizes of governments and fortunes among, say, the member states of the Organisation for Economic Co-operation and Development and reach any other conclusion — and that is only to survey taxes, expenditures and economic performance, not the relative intrusiveness of law and regulation, which are also of vastly differing intensity among these countries. While the analytical guns of economic and political science can increasingly be brought to bear

on aspects of the question, much clearly depends on how much government "the community" collectively believes to be in its interest.

The more critical questions that beg for answers include: Who is the relevant community? How do communities, once defined, come to understand their collective interests? How many of those collective interests, even if identifiable, need to be served through the intermediation of government? How sustained or sustainable are any community's convictions?

Above all, the effectiveness of government and, hence, its "goodness" depends critically on the existence of a broad community consensus about the role of government. The absence, or withering, of such a consensus can transform formerly "good" policies into quite destructive ones. In part, then, it may be said that the question of how much government is good government depends on how good government is at what it does, or how capable it is at sustaining an understanding and belief that it is good at what it does. This is, however, running dangerously ahead of the story. In order to build more systematically toward an attempt to offer more than aphorisms in response to the topic, a very shortened and potted form of recent history and reactions to it needs to be profiled.

The 1970s and 1980s in Retrospect

If some consensus can be said to have developed about the role of government in the postwar decades — the welfare-state-building years — it centered not just around Maynard Keynes' view of macroeconomic management. This theory joined with two other streams of political economy — that which worried about market failures, and that which worried about issues of distribution or fairness — and, of course, with the radical legacy of the 1930s, to rationalize government intervention across a broad front. This broad front included an explosion in law and regulation, subsidy and incentive, as well as the better-known redistributive and social-welfare structures. As defined by the Economic Council of Canada in the 1960s, the responsibilities of government were to assure:

- full employment;
- a high rate of economic growth;
- reasonable stability of prices;
- a viable balance of payments; and
- an equitable distribution of rising incomes.

As the central model in the bibles on public finance, management of the public household was said to embrace responsibilities for equity, efficiency, stability, and growth. It was under imperatives such as these that governments everywhere grew to assume wider and wider obligations, although, as noted earlier, the relative degrees of growth differed quite remarkably among countries.

The performance of the industrial economies deteriorated through the 1970s under the influence of an array of forces. International price and supply shocks, growing structural disorders, overly exuberant attempts to sustain growth in the face of these shocks, and, despite a deeply embedded inflation, the loss of growth momentum and the emergence of stagflation all served to undermine public faith in government. Severe monetary restriction and a worldwide recession in the early 1980s compounded the doubts. When the industrial countries emerged from these troubles, they confronted an array of new global technological and competitive challenges that, together, have come to be called the forces of "globalization".

Not surprisingly, the cumulative consequences of these two disruptive decades destroyed the postwar Keynesian consensus. Reaction embraced broad publics as well as economics and political science. The management of all four functions of the public household came into question. With regard to efficiency, a new classicism dominated economic thinking. It urged the virtues of the market, it diminished the notion that markets fail in important ways, and it questioned both the rationale and methods of government interventions. Privatization and deregulation became the new ethos.

With regard to equity, the deeply embedded deficits with which governments emerged from the 1981–82 recession were enough to raise questions about the affordability of transfer programs both to persons and to other levels of government. As well, however, the

disincentive effects of the structure of welfare programs became a critical focus in a new competitive age.

With respect to stability, the overexuberant attempts of Keynesian management to eliminate economic cycles were seen as themselves responsible for the embedding of inflationary expectations and the growth of deficits — as well as the neglect of monetary policy.

Finally, with respect to growth, a profound agnosticism, at best, surrounded the question of the capacity of government to manage or stimulate growth by the active pursuit of industrial policies.

These were broadly economic reactions. They were accompanied by political reaction from the public, which displayed a sense of disappointed expectations, and also from the academic community, which began to raise profound questions about the motivations of politicians and public servants. Taking over a self-interest model from the economist, political scientists questioned the capacity of government to manage and serve collective interests even if legitimate collective purposes were to exist. Together, these reactions sponsored a new liberalism, or a neo-conservatism — to show how confusing these categories can become — stressing individualism, the protection of individual rights, and the exercise of a private responsibility to address social ills, rather than their collective intermediation through the state.

The Canadian Variant

All of these reactions had their peculiar force in Canada. Despite this country's mythical commitment to compassion and sharing, it had never become a leading-edge welfare state. It did, however, add a federalist layer to the structures of government and a constitutionally embodied commitment to both interregional and interpersonal equity. To add to the standard list of expenditure programs visible everywhere, Canada has evolved a program designed to permit provinces and municipalities to offer roughly comparable levels of service and has employed the federal taxing and spending power to share the cost of education, health, and welfare expenditures.

Though relatively uncontentious, these statutory commitments do much to confuse the relative roles of different levels of government in Canada and much, therefore, to confuse discussions of the role of government in general. Well over 50 percent of all final spending in Canada is now done at the provincial-municipal-hospital level, and only about 20 percent of all final expenditure on goods and services is done at the federal level. More than 60 percent of the access to tax revenues is now in provincial and municipal hands.

Much more contentious have been those streams of expenditure by the federal government intended to foster regional economic development directly. There is little evidence that these programs have had much sustained effect, except where they have sponsored infrastructure development. They have contributed to the flows of interpersonal transfers, however, and have provided more equal incomes across the country than would otherwise have been the case.

Sorting Out the New Political Economy

This is now sufficient background to ask what definitive judgments have emerged from this experience. Is it possible to build a more assured consensus on what we want government to do to us and for us? Is it possible to imagine a time when we will say we do not mind paying taxes, because, as Oliver Wendell Holmes once noted, "we buy civilization with our taxes"? Has modern analysis revealed truths with some temporal sturdiness that can be used to shape government behavior? To what degree must we continue to rely on collective myths without which, in the words of William McNeil, "coherent public action becomes very difficult to improvise and sustain"? And to what degree will these myth structures shift and change focus over time?

Let us first address the relatively easy pieces. It seems safe to say that a very large part of the process of privatization and deregulation in which so many countries have engaged will remain a permanent feature of the landscape. It also seems safe to say,

however, that we should have spoken a language of "reregulation" all along. Experience to date in telecommunication, transport, and financial deregulation driven by international technological imperatives and by efficiency concerns reveals a critical role for forms of regulation after all. The tragic savings and loan debacle in the United States must be looked upon as a regulatory failure. The remonopolization of the worldwide air industry will demand a competitive watchdog. And endlessly postponed, but forthcoming, financial regulation in Canada will require continued fiduciary safeguards.

Similarly, with respect to efficiency issues more generally, it seems safe to assume that world competitive pressures will not again easily permit the luxury and waste of measures that impede the competitive process or that lock in uncompetitive practices in the name of protection. As the Europeans are discovering, however, this demands that transnational structures of practice and regulation be worked out — not abandoned — and that they be observed by all countries. In the areas of labor safety, hazardous materials, product codes, and unemployment insurance, for example, one anticipates evolution toward codes of standard worldwide practice. In environmental regulation, incursions into the marketplace by governments impelled by their electorates and by ecological disasters foreseen are, as yet, not quite imaginable.

The Future Need for Public Goods

But now to the harder territory. What of the other functions of government? Aside from regulatory and other market interference by government that has served to diminish economic growth, there remain efficiency issues that have to do with the provision of public goods. These are goods that can only be efficiently provided collectively, and I am inclined to believe that there are more of these than the new classicists among economists readily admit. One reason for this, I believe, is that the category overlaps with equity, stability, and

growth issues — the remaining obligations of the public household. In my view, these categories are inextricably intertwined.

One of the consequences of this view is that one ought not to anticipate much contraction in the role of government — indeed, there may be some expansion. The real issue, as noted at the outset of this chapter, is the capacity of government to enjoy a collective understanding and whether that would permit the discharge of these obligations to be efficiently designed.

Consider, first, the equity issue. Both Fred Hirsch and Mancur Olson note that the Achilles heel of market capitalism is its failure to assure tolerable distributional outcomes.[1] For both Hirsch and Olson, this failure breeds the formation of collectivities committed to redressing market outcomes. Hirsch argues that these collective struggles lie at the base of the disease of inflation and diminish the moral authority of the economic system. Olson believes that they not only induce inflation, they also breed destructive rigidities in the economic system. For both authors, and for Kenneth Boulding,[2] achieving "national" understanding and consensus about the tax and transfer system, which redistributes wealth and income, becomes an increasing *sine qua non* of the quality of economic performance more generally.

While restoring the great benefits of the market system as an allocative mechanism, the correct prescription is to reform, rather than to jettison, the redistributive role of government. It is true that this system, built by increments, breeds inefficiency and disincentives — the Canada Assistance Plan, with its poverty-trapping 100 percent taxback rates and uneven coverages is a notorious example. But the solution is to increase the transparency of the system, linking taxes and expenditures much more clearly in the public's mind and increasing the efficiency and selectivity with which

---

1 Fred Hirsch, *Social Limits to Growth* (London: Routledge & Kegan Paul, 1977); and Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation and Social Rigidities* (New Haven: Yale University Press, 1982).

2 Kenneth E. Boulding, *The Economy of Love and Fear: A Preface to Grants Economics* (Belmont, Cal.: Wadsworth Publishing, 1973).

taxes are paid and payments are made. Modern guaranteed annual income designs have the kinds of properties that can restore public faith in, and understanding of, government's intermediating role.

The volume of resources that it is necessary to redirect through this redistributive role depends, in turn, on the effectiveness with which the private economy provides adequate flows of employment and income. In part, of course, this is a function of private initiative, but it also depends on the quality of a wide array of public or quasi-public goods, from the basic infrastructure of modern cities, to national transportation and telecommunication systems, to the structures of educational and health systems, to support for inventiveness and innovation. It is difficult to see any great diminution in the role of government in this array of obligations. Indeed, almost all commentators cite the need for a massive refurbishment of Canada's educational system to meet the needs of the age of technology and its demands for a sophisticated labor force. It is in measures such as these that economic opportunities become more equalized and the need for safety nets less oppressive. The demands of the twenty-first century for public investment in environmental repair, preservation, and amenity more generally also promise significant new claims on the public purse.

The final link from distributive expenditures and the provision of a modern national infrastructure to issues of stability and growth is self-evident. Less stress on the distributive system reduces inflationary pressures and frees monetary and fiscal policy to adopt growth-inducing postures. Greater attention to the provision of the basic public structures of a post-industrial economy frees private initiative and markets to pursue growth and employment creation.

Conclusion

It is difficult to see how "good" government can absorb a smaller proportion of economic activity than it now does in Canada. Indeed, the growing numbers of elderly and of children living in poverty, the increasing demands for day care and affordable housing, environ-

mental claims, the need for more education, training, and retraining, and, above all, government deficits make it seem unlikely that the taxing requirements of government will diminish.

This argument also assumes, however, that these fundamentally collective goods cannot be efficiently provided by any other means but by government, and that quality economic performance is impossible without them. It further assumes that this claim depends critically on the development of a broad consensus as to its validity. Should this consensus fail to materialize, we are likely to see a proliferation of narrowly focused interest groups quarrelling over public spoils with the freest ride that good tax lawyers can contrive, to the ultimate disability of the nation and its economic performance.

7 Social Regulation and Environmental-Economic Reconciliation

G. Bruce Doern

One of the most pressing issues to emerge in the past few years is the need to reconcile Canadians' increasing awareness of the importance of a clean, healthy environment with their desire for a growing economy. This chapter examines several imperatives that Canadians must confront if this reconciliation is to occur.

Before these imperatives can be examined, however, it is necessary to undertake two initial analytical tasks. The first is to provide some sense of Canada's environmental policy history. The second is to establish a practical political appreciation of the nature and basic dynamics of social versus economic regulation, within which regulatory policymaking is fundamentally lodged. These tasks are linked by the need to understand the relationship between the role of the state and the role of markets, and the vital part that both must play in achieving a new form of sustainable development.

A Brief Look at Canada's Environmental Policy History

Several legacies of Canada's environmental policy history are important as benchmarks for the future. The first is the considerable progress that has been made in improving air and water quality over the past 20 years, and without much concerted mobilization of

national will. Much of this occurred in one burst of action in the early 1970s, at the dawn of the modern environmental era. Some progress was also achieved in the 1980s, but governments, and to some extent the public as well, settled into a state of policy inertia for most of that decade. Clearly, however, much more progress can be made fairly quickly on solving Canada's environmental problems, given a bigger and more sustained national effort to do so.

Second, the federal government has not implemented tough pollution laws, nor has the Department of the Environment (DOE) had a good enforcement record.[1] In spite of the environmental improvement that has occurred, it is generally recognized that DOE has relied excessively on the provinces and on quietly negotiated arrangements with industry to achieve its goals. The passage of the *Canadian Environmental Pollution Act* in 1987 changed this situation to some extent, but DOE's record for the broader 20-year period has not been exemplary.

Third, DOE's scientific and technical capacity to support its regulatory role was allowed to atrophy, particularly during the period of budgetary restraints in the 1980s. Indeed, this technical capacity was never especially strong to begin with. Yet, for any government role centered on effective regulations and standards, an exquisitely good technical capacity is absolutely essential.

Fourth, improved cooperation and understanding between many environmental and business groups developed almost imperceptively during the 1980s.[2] In the 1970s, these interests were content to fire shots across each other's bow, in part because many environmental groups advocated a "no growth" economic policy. In the 1980s, business and environmental groups began to talk to each other in more serene and constructive ways. Through consultative vehicles such as the Niagara Process in 1984, the 1986–87 National

1 See Law Reform Commission, *Pollution Control in Canada: The Regulatory Approach in the 1980s* (Ottawa, 1986).

2 See, for example, Glen Toner, "Whence and Whither: ENGOs, Business and the Environment" (paper presented to a conference held at Carleton University, Ottawa, February 8, 1990).

Task Force on Environment and Economy, the Energy Options review process, the Northern Conservation Task Force, the National Forest Strategy, and recent federal and provincial environmental roundtables, an environmental policy community has clearly begun to emerge and to mature. This has required both erstwhile camps to acquire mutual forms of ecological and economic literacy. However, this quiet, behind-the-scenes progress has also led to raised expectations, especially among environmental groups, that action will now be taken.

A final policy legacy — or, more accurately, a political-economic legacy — is the growing recognition that economists are right when they view pollution as an inevitable consequence of human activity linked to the three phases of life itself:

- the harvesting of energy and material inputs;
- their processing and transformation; and
- the return of energy and materials to nature in new forms.[3]

Economists point out that it is only in the third of these, which is likened to the "third phase of economic development" that western societies have failed to apply the basic institutions and concepts of liberal, democratic, market economies. In short, the ownership of assets is unclear, their uses are unpriced or underpriced, and markets are lacking. The longer this situation prevails, the less likely it is that progress on environmental problems will occur.

Economic versus Social Regulation

An examination of whether the environment and the economy can be reconciled also requires a prior appreciation of some of the regulatory institutions and dynamics in which environmental policy is located. In particular, this requires an understanding of how

3 See Arlon R. Tussing, "Environmental Policy Issues: Market Failure in the Third Phase of Economic Activity," in G. Bruce Doern, ed., *The Environmental Imperative: Market Approaches to the Greening of Canada*, Policy Study 9 (Toronto: C.D. Howe Institute, 1990), pp. 52–82.

economic and social regulation differ and how they overlap.[4] Table 1 sets out four basic characteristics of economic versus social regulation — namely, the objective of regulation, the scope of regulation, the nature of interest-group politics and public pressure, and the nature of governmental structure and federal-provincial relations.

The objective of regulation is different in the two realms. Economic regulations are rules of behavior, backed up by state sanctions, intended to influence entry, output and/or price. Social regulations are rules intended to influence health, safety, or fairness. Economic regulation has a longer historical salience and is associated with some of the older agencies (or their predecessors) listed at the bottom of Table 1. Social regulation is usually portrayed as being of more recent vintage — most of the agencies listed in the table have been established in the past 25 years or so. It is important to separate the two types of regulation by their intent; in fact, however, they exist as a grid, and their effects on particular sectors overlap. In short, economic regulation has social consequences and social regulation has economic consequences.

The scope of regulation is also different in the two realms. Economic regulation tends to have a greater impact on particular vertical sectors of the economy. Social regulation typically has much broader effects. It is much more horizontal in nature, stretching across many sectors in an effort to implement general rules for many health hazards, pollutants, and products. These differences in scope will be referred to later, but one immediate corollary arising from these inherent physical properties is that the two types of regulation generate different kinds of interest politics and public pressure.

Economic regulation tends to be dominated by producer groups with concentrated interest-group power. Where social regulation is concerned, there is a more complex interplay between producer groups and broadly based "collective-rights" or public-interest groups. The latter — environmentalists, consumers, women, and, to

4 See W. Stanbury, "Reforming Direct Regulation in Canada," in K.J. Botton and D. Swann, eds., *The Age of Regulatory Reform* (Oxford: Oxford University Press, 1988).

Table 1

Economic versus Social Regulation

Characteristic	Economic Regulation	Social Regulation
1. Objectives	Entry, output, price	Environment, health, safety, fairness
2. Scope	Vertical (sectoral)	Horizontal (cross-sectoral)
3. Interest-group politics and public pressure	Producer dominated; pressure to deregulate	More complex interplay among producer and collective rights groups; pressure for more regulation; greater media role
4. Governmental structure and federal-provincial relationships	Quasi-independent; federal-provincial overlap, but federal jurisdiction clearer	Line department; federal-provincial interdependence; more complex and numerous compliance tasks (thousands of sites for regulatory success and failure
Federal examples	Transport (NTA); telecommunications (CRTC); energy (NEB); banking (Bank of Canada)	Health Protection Branch; Environment (DOE); Occupational Health; Superintendant of Financial Institutions

some extent, labor unions — often experience problems in organizing because of the ability of citizens to obtain the benefits of their lobbying without having to join. When added to the broad scope of social regulation, this so-called free-rider problem means that such groups are tactically weaker than producer groups. This fact also helps to explain public-interest groups' avid use of the mass media as a political ally and vehicle, while producer groups prefer quietly to lobby "their" regulatory agency.

Since the mid-1970s, public opinion and significant international and technological change have combined to produce two

contradictory kinds of pressure. On the economic side, the pressure has been to *deregulate* and, hence, to reduce the role of government.[5] Considerable deregulation has already occurred in such sectors as airlines, trucking, rail, telecommunications, energy, and banking.[6] On the social side, there has been growing pressure, particularly since the late 1980s, to *increase and expand* regulation, especially in the areas of the environment and public health.[7]

In an overall sense, then, many industrial sectors face what may seem to them to be the worst of both worlds. Deregulation, including liberalized international trade, has lead to increased competition. At the same time, the prospect of more and tougher environmental regulations imposes higher production costs.

The final difference between economic and social regulation lies in the area of governmental structure and federal-provincial relationships. Economic regulation tends to be promulgated and administered through quasi-independent boards and commissions that are one step removed from direct ministerial control and responsibility. Social regulation, on the other hand, tends to be located in regular line departments of government, which have less autonomy and are more closely supervised by ministers. Although there are many reasons why particular modes of organization occur, it is certainly plausible to suggest that, in this case, the two structures reflect differences in inherent power. Producer interests are able to organize arms-length entities that are more amenable to their control and influence over the long term, while collective-rights groups are not as successful in doing so.

It is axiomatic in Canadian politics that federal-provincial relations matter a great deal and that there is tremendous interdependence in the jurisdictional roles of both levels of government. This is

---

5 See M. Derthic and P. Quirk, *The Politics of Deregulation* (Washington, D.C.: Brookings Institution, 1985).

6 See R. Schultz, "Regulating Conservatively: The Mulroney Record 1984–88," in Andrew Gollner and David Sales, eds., *Canada under Mulroney* (Montreal: Véhicule Press, 1988), pp. 186–205.

7 See Doern, ed., *The Environmental Imperative*.

reflected in the area of social regulation, where jurisdictional divisions are blurred and administrative interdependence is intricate. In the area of economic regulation, in contrast, federal jurisdiction is somewhat more clearly demarcated.

In environmental policy, the federal government delegated much of its compliance role to the provinces, at least until the passage of the *Canadian Environmental Protection Act*. In turn, the provinces treated federal tasks as work to be done only as time permitted after having carried out provincial tasks.[8]

The practical nature of federal-provincial interdependence, however, goes far deeper than this. Fundamentally, it arises out of the fact that the sweeping, horizontal nature of social regulation embraces more numerous and more complex compliance tasks. In environmental regulation, for example, there are literally tens of thousands of physical sites at which regulatory action, success, and failure can occur. This is simply not the case in sector-specific economic regulation.

While briefly stated, the foregoing characteristics are important as a setting for environmental policy and for understanding the potential for reconciliation and conflict between the economy and the environment. Policy implementation does not arise out of abstract policy statements. Rather, it reflects an interplay of interests and institutions in which economic and social regulation to some extent collide and overlap.

The Imperatives of Environmental and Economic Reform

The legacy of Canadian environmental policy and the dynamics of social versus economic regulation suggest that at least six imperatives must be faced if progress is to be made in reconciling environmental and economic issues.

---

8 See G. Bruce Doern, M. Prince, and G. McNaughton, *Living with Contradictions: Health and Safety Regulation and Implementation in Ontario* (Toronto: Royal Commission on Asbestos, 1982).

The Greater Relative Use of Market Approaches

This imperative refers to the need to rely relatively less on "command-and-control" regulatory approaches to implement environmental policy and more on devices such as pollution taxes, subsidies, and tradable pollution permits. These are characterized as incentive, or market-oriented, approaches, primarily because they allow greater flexibility for private decisionmakers to choose the means through which they reach agreed-on levels of pollution reduction.[9] While more Canadian experience is needed with such devices, there is no doubt that they are the key — along with regulation and a continuous appeal to environmental values — to changing Canadians' behavior in a sustained way.

The most convincing case for these approaches, rather than for an exclusive reliance on direct regulation, does not flow from some simple ideological preference for markets. Instead, it is based even more on what I call the "bottom-up" mapping of the environmental policy terrain. While such mapping is inherent in the typology sketched out above in Table 1, it proceeds even more concretely as follows.

Consider any single product's evolution through the production cycle of a modern economy, beginning, say, with its extraction as a mineral from the ground, through its transformation to an intermediate product, its transportation to numerous sites, its further transformation into further end products, and, finally, to its sale to millions of consumers. Multiply this 100,000-fold to encompass a multiple-product economy. Add to this an accurate spatial sense of reality — that is, hundreds of water basins and thousands of air quality areas. Finally, add the adjoining products, sites, and areas of other countries.

One requires little imagination to see that environmental policy seeks to change human behavior at literally tens of thousands of

---

9 See David Pearce, A. Markandya, and E. Barbier, *Blueprint for a Green Economy* (London: Earthscan, 1989).

sites where wastes or residuals occur. No behavioral change of this magnitude is possible through regulation alone, or even through an appeal to altruistic values — though both of these are also essential to success.

Let me stress that I am referring here to a *relative* shift. In other words, if, over the next decade, Canadian governments took 1,000 decisions to improve the environment, three-quarters of them would have to involve the use of incentive approaches. The other one-quarter would still be command-and-control actions.

The Role of Command-and-Control Approaches

Environmentalists deserve most of the credit for putting and maintaining environmental issues on the political and economic agenda.[10] They are a vital part of the political equation.

It is frequently true, however, that *some* environmental groups are also command-and-control addicts. At times, they come perilously close to preferring as their main indicator of policy success the number of corporate executives they can put in jail, rather than how much the environment is improved. At other times, they wish to prevent, instantly and indiscriminately, any economic activity that might produce waste. What, then, is the *appropriate* role for command-and-control approaches?

Some of the opposition to the use of incentive-based approaches arises simply out of a lack of sufficient understanding and dialogue as to how these might work in practical situations. But opposition also stems from a sense of moral outrage, or from a belief in the unfairness of particular pollution situations. This can easily translate into opposition to capitalism or to business in general. Still other resistance arises from the fact that too many Canadian laws are more accurately labeled as "command" but "no control". They adhere to

10 See Robert Paehlke, *Environmentalism and the Future of Progressive Politics* (New Haven: Yale University Press, 1989).

what one wag referred to as the "Gabby Hayes theory of regulation": polluters are not so much bitten by tough regulations as they are "gummed". This fact makes it particularly difficult to gain a receptive audience, since the contrast is not between command-and control and incentives, but between a weaker version of the former and a little-understood alternative.

As I stressed earlier, the choice is about a *relative*, not an *absolute*, shift in preferred and needed policy instruments. A vital element of command-and-control is still needed in any future scenario. Indeed, those economists who are among the most ardent advocates of market approaches know that incentives will only work if tough, scientifically valid emissions standards are established first. Too many exemptions given to old, polluting plants, or unclear definitions of property rights, will render many market-based approaches less and less useful.[11]

Since government as regulator can never police all the thousands of sites where environmental behaviour must change, it must confine itself more to, and become especially good at, defining overall standards of performance. But this must be based on first-class scientific advice and extensive public consultation with all the interests involved.

Consultation and Negotiation in Setting Standards

If government is to be good at determining emissions standards — its vital role in the environmental issue — then its "commands" must be legitimately arrived at. The key feature of environmental policy in the 1990s will be battles over means, rather than ends.[12] Thus, the

---

11 See Robert W. Hahn, "Economics for Environmental Problems: How the Patient Followed the Doctors Orders," *Journal of Economic Perspectives* 3 (Spring 1989): 95–114.

12 See G. Bruce Doern, *Canadian Environmental Policy: Why Process Is Almost Everything*, C.D. Howe Institute Commentary 19 (Toronto: C.D. Howe Institute, 1990).

process of setting standards — nationally, provincially, and locally — must become more democratic and consultative in nature.

How "tough" these standards are — in short, how much and how quickly pollution must be reduced— will depend on three tests of the decisionmaking process itself.[13] One test will be scientific and technical. Setting standards involves scientific and technical judgments that, by their nature, are bound to be controversial. Accordingly, a key problem will be how to separate genuine scientific disputes — where "causal knowledge" is truly uncertain — from those involving special interests — where scientists are hired guns whose role is to disguise economic disputes. The designers of hearing and decision processes will have to pay more attention to how such disputes can be aired more fully and openly.

The second test will be the degree to which the decisionmaking process is politically transparent in allowing special interests to participate. The more closed it is, the more deservedly suspect will be its decisions. In the short term, the process likely will — and should — be slowed, because of the ingrained character of environmental decisions. Not only will it be necessary to determine in a practical way just what sustainable development means in any particular project or situation, but detailed discussions will be needed to design the appropriate policy instrument packages. Since such packages could involve an array of devices — fees, pollution permits, taxes, standards, memorandums of agreement — they will need proper arenas for consensus building.

A third test for decisionmaking will involve the allocation of risks between generations. While many areas of public policy must deal with intergenerational issues, there is a special dimension to this task in environmental policy, because irreversible damage can occur unless action is taken sooner rather than later. A related limitation to purely economic notions of valuing the future is the issue of whether other forms of life have rights.

---

13 See Robert Paehlke and D. Torgerson, *Managing Leviathan: Environmental Politics and the Administrative State* (Toronto: Broadview Press, 1990).

Cabinet Decisionmaking Processes

Another key issue is the extent to which the federal cabinet can begin to make environmental policy decisions that are anticipatory rather than reactive.[14] In particular, should the cabinet decisionmaking process be governed by statutory requirements for environmental assessment — that is, should the principle of environmental assessment apply not only to large projects but also to all policy choices? Environmental interest groups regard this statutory reform of the cabinet process as a key litmus test in the federal government's promised *Green Plan*.

Not surprisingly, the Ottawa bureaucracy is resisting this idea, on three grounds. First, some line ministers and departments are opposed simply because it would sacrifice their policymaking independence and discretion on the altar of sustainable development — a policy value whose meaning in practical situations is unclear, or which they perceive will be at odds with their departmental priorities. Second, departments such as Finance and Industry, Science and Technology are resisting in part because they fear that it would lead to demands that would deflect attention away from the primary economic challenges facing Canada — such as the fiscal deficit and the country's international economic competitiveness. Third, the Privy Council Office argues that one cannot have a law on a cabinet-wide basis that somehow purports to tell cabinet members what to take into account in making decisions. According to this argument, one might then equally have laws forcing the cabinet to give primacy to regional values or to efficiency and "value-for-money" criteria.

The federal government's June 1990 reform proposals on environmental assessment reached a reasonable compromise on this issue. Assessments of cabinet decisions will now occur, although they are not a statutory requirement, and summaries will be made public. This reform may well lead to some *pro forma*, ritualistic

---

14 See F. Bregha et al., *The Integration of Environmental Considerations in Government Policy* (Ottawa: Rawson Academy of Aquatic Science, 1990).

environmental assessments. Equally, however, it should help kick-start the cabinet and senior bureaucrats into developing environmental habits as a forethought, rather than an afterthought, in the policy-formulation process.

Environmental Monitoring and Information

It would be ironic if, in the year 2000, after a decade of cooperative and decisive environmental action, Canadians still had no practical way of knowing whether their environment was, in fact, greener. This paradoxical possibility is not at all unlikely. The reconciliation of the economy and the environment depends on continuous monitoring, testing, and information activities. In the short term, these are needed just to determine the magnitude of the problems. In the longer term, they are essential as a form of sophisticated feedback and as a way to build confidence that we are actually getting somewhere.

At one level, government recognition of this need is evident in the increasing prevalence of environmental annual reports and audits. But at another level, governments are often quite cavalier about this fairly inexpensive need, in the form of short-sighted attitudes and actions toward environmental science, especially its relatively unglamorous monitoring and testing aspects. Such "temperature taking" requires a steady, long-term commitment of resources and work, but it is the kind of area in which cost-conscious governments like to make budget cuts. Yet, without such work, we will scarcely be able to know what we have done in the name of environmental reform. This informational need extends, incidently, to basic environmental accounting to complement or amend the traditional national accounts data. This need has long been recognized, but progress is painfully slow. This is an area where a few dollars, relatively speaking, can go along way.

Setting Environmental Priorities

The need to set priorities is obvious, but is also easily ignored. For example, the June 1990 federal discussion paper — the precursor to the *Green Plan* — asks what priorities ought to be set for the 1990s, but it makes little attempt to establish what might be the relevant criteria.[15] The best way to think this key issue through is to go through the following exercise. Assume you are the federal Minister of the Environment, and that you will have the job for five years. Assume (optimistically) that you will have about $2 billion of public money to spend or invest, and that you want to influence triple that figure in private-sector spending on pollution control over your five-year mandate. What will your priorities be, and what criteria will guide your choice? What would you say in your maiden speech to the House of Commons? If you did not want to say it in public, what notes would you make to yourself on this issue as you sit contemplatively at your desk?

The contending criteria are numerous. Do you pick a particular hazard, such as acid rain or nuclear waste? Do you pick hazards linked to industries that are important high-employment, high-value-added engines of the Canadian economy? Do you look at the measurable consequences of the costs imposed on alternative users and of the costs avoided by regulating performance rather than regulating detailed production designs? Do you pick hazards or pollutants that are regionally balanced? Do you pick problems that rank high in public opinion polls? Do you pick those that threaten the health of the largest number of Canadians? How much money should go into prevention rather than cures or cleanups?

The government must make some effort to be more explicit as to why it chooses certain priorities over others. Even then, priorities will not be always "chosen" as such. Rather, they will be brought into being by economic and political interests through overt decisions and through pressures to postpone action, or not to act at all.

---

15 Canada, *A Framework for Discussion on the Environment* (Ottawa: Supply and Services Canada, 1990).

This discussion by no means exhausts the variables inherent in the task of successfully greening Canada. Nonetheless, if these imperatives begin to be addressed intelligently and democratically, there is a reasonable chance that a reconciliation between the environment and the economy can occur. It is certainly not a stark choice between markets *or* the state. Rather, as always, it is a matter of all interests' recognizing what balance of tasks between the state, society, and the economy will get the job done.

References

Bregha, F., et al. *The Integration of Environmental Considerations in Government Policy*. Ottawa: Rawson Academy of Aquatic Science, 1990.

Canada. *A Framework for Discussion on the Environment*. Ottawa: Supply and Services Canada, 1990.

Derthic, M., and P. Quirk. *The Politics of Deregulation*. Washington, D.C.: Brookings Institution, 1985.

Doern, G. Bruce. *Canadian Environmental Policy: Why Process Is Almost Everything*, C.D. Howe Institute Commentary 19. Toronto: C.D. Howe Institute, 1990.

———, M. Prince, and G. McNaughton. *Living with Contradictions: Health and Safety Regulation and Implementation in Ontario*. Toronto: Royal Commission on Asbestos, 1982.

Hahn, Robert W. "Economics for Environmental Problems: How the Patient Followed the Doctors Orders," *Journal of Economic Perspectives* 3 (Spring 1989).

Law Reform Commission. *Pollution Control in Canada: The Regulatory Approach in the 1980s*. Ottawa, 1986.

Paehlke, Robert. *Environmentalism and the Future of Progressive Politics*. New Haven: Yale University Press, 1989.

———, and D. Torgerson. *Managing Leviathan: Environmental Politics and the Administrative State*. Toronto: Broadview Press, 1990.

Pearce, David, A. Markandya, and E. Barbier. *Blueprint for a Green Economy*. London: Earthscan, 1989.

Schultz, R. "Regulating Conservatively: The Mulroney Record 1984–88." In *Canada under Mulroney*, edited by Andrew Gollner and David Sales. Montreal: Véhicule Press, 1988.

Stanbury, W. "Reforming Direct Regulation in Canada." In *The Age of Regulatory Reform*, edited by K.J. Botton and D. Swann. Oxford: Oxford University Press, 1988.

Toner, Glen. "Whence and Whither: ENGOs, Business and the Environment." Paper presented to a conference held at Carleton University, Ottawa, February 8, 1990.

Tussing, Arlon R. "Environmental Policy Issues: Market Failure in the Third Phase of Economic Activity." In *The Environmental Imperative: Market Approaches to the Greening of Canada*, Policy Study 9, edited by G. Bruce Doern. Toronto: C.D. Howe Institute, 1990.

8

Canada at Risk

Richard Gwyn

To conclude this first part of the book, I have two thoughts to offer concerning the policy environment for the 1990s. One has the great benefit of not being mine. It was provided to me by an official of Quebec House in London during a mid-winter conversation about Meech Lake. He asked why the English-Canadian elite was sitting on its hands through this Quebec-Canada crisis, unlike in 1980.

My answer was, "Because you sat on your hands." He asked what I meant. I said that the 1988 free trade debate had been English-Canada's equivalent to the Quebec referendum. It tore friends apart; it was a case of heart versus head. But Quebecers had not given a damn about this English-Canadian angst. I said I was not talking here about Quebec's having voted for free trade, which it had every right to do, but that no Quebecer appeared to have noticed, or to have cared, or to have respected English-Canada's anguish.

My sense was that, post-election, the English-Canadian cultural elite in effect dusted itself off and said to itself that it had been living in a fool's paradise in assuming that all that had happened before had created some connections between the two peoples and that Quebecers therefore would care, a bit, about the rest of the country in the way English-Canadians, at least some of the time, do care about or try to take some interest in Quebec. The official — a federalist, incidentally — said I was right, that Quebecers were

self-centered. We discussed this, and agreed that self-centeredness is an inherent condition of all minorities. At this point, in my gooey English-Canadian way, I half-expected him to apologize. He did something far more useful: he gave me an insight into my own people. He said, "What you are really saying is that English-Canadians are now living at risk in the same way Quebecers have had to live at risk throughout their history." He then added, "Welcome aboard."

That insight about our condition, unsentimental, unapologetic, direct, was, I think, dead on. The phenomenon of our living at risk explains a good deal of our contemporary crabbiness, edginess, mean-spiritedness. This is because, as is the real point about the phenomenon, we English-Canadians have never before had to live at risk.

Living with Risk

Being a Canadian has been to live without risk. Only New Zealand, arguably, has been a more risk-free society than ours. We have had no enemies, and any we had could not reach us across the oceans and the United States. We have been free of the risk of mass migration from the Third World that now so troubles the United States. Above all, our resources gave us immense surplus wealth. We then redirected that wealth, on the whole pretty wisely, into a network of social programs that has kept us largely risk free in our personal lives. We have also created, by our large government sector, what could be called a "tenured society". We have even, through equalization, minimized the risks of those who chose to live in economically unviable regions that they happen to have been born in.

Suddenly, we are all living at risk. It has destabilized us. The reasons, most of them, are well known. One is the global economy, from which we cannot hide and which forces us to be as competitive — even though we live in safe, stable Canada — as if we were living in a high-risk society such as Hong Kong. Canada-U.S. free trade has brought the global economy nearer to us, but only in degree rather than in kind; it would be here anyway. There are related factors. Privatization, the current vogue, reduces the numbers of

those holding tenured jobs; acquisitions and mergers, the other current vogue, reduces the numbers who enjoy even quasi-tenure in their present jobs.

Politically, there is the obvious fact that because of continental free trade, English-Canadians are now living at risk in the same way Quebecers always have. We fear we may not be able to resist the pressures to conform to continental standards, until all crossborder differences vanish, and with that, logically, the country itself.

Lastly, and most immediately, there is the risk that the two founding peoples of Canada may not be able to work out a satisfactory relationship with each other. We may cease to be a country that stretches "from sea to sea". Without a center, our country would not be able to hold.

In Good Company

Let me make a point here that relates to the second thought I want to offer. In looking at the state of risk we now find ourselves in, we could profitably do something we have not done in a long time. This would be to look at Europe. Quebec's drive toward autonomy is deeply troubling to us. The same phenomenon is happening all over Europe these days, which may make the phenomenon less troubling by making it less unique and so less of a fault for which we alone are culpable. It is happening in Eastern Europe, of course, but also in affluent, democratic, orderly, and rational western Europe: Scotland in Britain, Catalonia and the Basque country in Spain, Corsica in France, Flanders and Walloonia in Belgium, the city states in Italy — it being little understood that all Italians are only ever all Italian, rather than Lombards, Tuscans, Venetians, Genoese, at World Cup soccer time.

Why this seemingly universal return to tribalism? I would suggest that it is because of globalism. It has made all nation-states porous, unable any longer to protect their citizens from distant, impersonal, financial, and economic global forces. The decline of cohesion of the family unit may be another reason. In all kinds of

ways — the divorce rate being the most obvious — the family is no longer the integrated and protective unit that it once was. So we retreat, or regress, or return to the tribe, because it is familiar, supportive, defining.

There is, incidentally, something else we could learn from Europe. People there are on the move these days, East Germans most spectacularly. German unification, in fact, is their invention. They forced West Germans to unite with them, at a considerable cost in Deutschmarks, by moving there *en masse*. Absurd, paradoxical though it may sound, the principal purpose of German unification was to keep West and East Germans apart. We may experience a comparable phenomenon. There could be, will be, I predict — though I hate to do so because it will threaten the part of the country I am closest to emotionally — a major out-migration, starting within the next decade, from the Atlantic provinces, from the rural parts of the prairies, and, because of recycling and other factors, from our forest hinterland. If East Germans can move to their next-door "country", why cannot Canadians move within their own country? And if they do, how do we prevent ourselves from becoming a string of cities amid an emptiness?

A Mobilizing Vision

Richard Simeon made the point in Chapter 3 that Canadians lack a national project to cement together the country at this testing time. I am struck more though — and yet again this is something *we* could discover by looking outside of ourselves — by the fact that we lack not so much a mobilizing Canadian national project as a mobilizing project equivalent to the one Europeans now have. That project is Europe itself. Europe today has an allure, a magnetism, it functions as a source of excitement and challenge, in a way it has not had for three-quarters of a century, back to World War I. What strikes me is the lack of any North American project.

This New World, for so long so dynamic, so optimistic, so resilient, today seems flat, listless. "Brain dead" is a phrase U.S.

commentators now use to describe the condition of their political discourse. If we could overcome our fear of getting involved in a North American project — the prospect of our extinction as a distinct society within North America is heightening that fear — is it inconceivable that Canadians could help to define — even initiate the definition of — a North American mobilizing project? The United States is now looking seriously at Canadian medicare. Medicare is not a mobilizing project, of course. But it does demonstrate, to ourselves, to others, that we produce more than rocks and logs. If we live at risk anyway, then reaching out — North America being not only us and the United States, but also Mexico, and, depending on definition, Central America and the Caribbean — could improve our chances of blasting through those risks.

International Journalism

The other thought I want to toss out — and this is my own — is related to this concept that Canadians now live at risk, but it is also related specifically to the trade of journalism.

In the 1980s, the Canadian media underwent a significant change. It was during this decade that Canadian newspapers, magazines, radio, and television became numerate. In 1980, only one newspaper, *The Globe and Mail*, possessed any competence in finance, economics, and commerce. Today, everyone does — not just the immensely expanded specialist press, but every single media outlet, including my own *The Toronto Star*. It is not only the business pages that have changed, though. Nonfinancial journalists — political ones, say — now take for granted that to do their job they have to possess some comprehension of finance and economics and trade and commerce.

The change in the Canadian media in the 1990s will, I predict, be its "internationalization". In 1980, there were about a dozen Canadian correspondents in all of Europe. Today, the number would be around 35. Given the costs of foreign bureaus, that is an impressive expansion. By the ugly word "internationalization", though, I

mean a good deal more than the posting of Canadian correspondents abroad. I mean an awareness of what is happening in the world, not just in the sense of sending back accounts of specific events in, say, Vilnius, but in reporting on ideas, trends, projects, developments, experiments, and initiatives that are of interest and relevance to Canadians even though they are not happening in Canada. Moreover, those foreign correspondents will come back home, and they will change things here when they do. For example, it is easy to guess that the present editor of *Saturday Night* magazine was once a foreign correspondent — for the first time in almost two decades, that magazine now contains a number of articles with foreign bylines. Today, for a journalist to achieve an editorial management position, he or she must have spent some time in Ottawa. I would hazard that, before long, foreign experience, and so an awareness of the world, will become an unstated requirement for senior editorial positions. I say this in the full awareness that I, during my term as a columnist in Ottawa, did not report on what was happening in the rest of the world, and by not doing so I was misinforming my readers. Implicitly, I sent my readers the message that Canada was an island, that only what was happening in Canada mattered to Canadians.

Conclusion

It is because of what is happening in the world that we in Canada are now living at risk. We are, that is to say, living in the world rather than living by ourselves. Thus, any Canadian journalist unaware of the world will be misinforming his or her readers. Any Canadian journalist unable to make, where necessary — not to insert a quote from Dante's *Inferno* into every story about a two-alarm fire — references to international trends, ideas, contexts, will not be telling the full story. This worldliness will not be easy to acquire for a media that until now has essentially limited itself to Canada's boundaries. But if we expect our companies, such as Bombardier, Northern Telecom, and McCain's, to operate on a world-class basis, as they do and have to do, then why should not Canada's media do the same?

Part II

Policy Fields

9 Toward the Reintegration of Social and Economic Policy

Thomas J. Courchene

The purpose of this chapter is, first, to review and assess the evolution of the Canadian welfare state and, second, to suggest that in the future social policy must increasingly become the centerpiece of "sustainable economic development". In terms of the former, the organizing schema casts social policy evolution in terms of four stages isolated by Hugh Heclo: experimentation, consolidation, expansion, and reformulation.[1]

Accordingly, the initial section of the chapter focuses on the first three of these stages, while the second deals with some aspects of the reformulation stage as it appears to be playing out in Canada. The next two sections bring two new forces into the social policy picture: the role of the courts — essentially challenges to social policy under the Charter of Rights and Freedoms — and the likely impact of the Canada-U.S. Free Trade Agreement. The final section attempts, as noted, to develop a new framework for social policy, by viewing social policy as the key integrating factor in the context of sustainable economic development.

---

1 Hugh Heclo, "Toward a New Welfare State," in Peter Flora and H.J. Heidenheimer, eds., *The Development of Welfare States in Europe and America* (London: Transaction Books, 1984), pp. 383–406.

Where We Were

Hugh Heclo's four stages of the welfare state have characterized most, if not all, western industrialized countries. For each of these stages, Heclo focuses on the interactions among economic conditions, political forces, and social philosophy. The full tableau is reproduced as Table 1. Rather than comment directly on the entries in the table, I will deal briefly with my interpretation of how these various stages relate to the evolution of the Canadian welfare state.

Two important forces facilitated the transition from the stigmatizing nature of most forms of social policy in the "experimentation" stage. The first was related to the social and political aftermath of the Great Depression and World War II. The mass economic dislocation of the Great Depression dispelled forever the notion that the need for economic security was confined to a small minority of citizens whose requirements could be met by a highly selective set of relief programs and, indeed, by the "goodwill of relief offices."[2] These societal concerns for guaranteeing more economic security were enhanced by the expected postwar depression and by the homecoming of those who had served in the armed forces — a group so obviously deserving of economic security in return for their valiant efforts.

Combined with these concerns on the social and political fronts was the powerful influence of Keynesian economics on the macroeconomic front. One of the central messages of Keynesian economics was that the economy would not, except by accident, equilibrate at full employment. Hence, it was critically important for governments to undertake pump-priming policies in order to achieve full employment. More to the point, monies spent on social programs would not only aid the recipients, but also, through the Keynesian multiplier process, provide greater employment and economic security for all.

2 Keith Banting, "Universality and the Development of the Welfare State," in Alan Green and Nancy Olewiler, eds., *Report of the Forum on Universality and Social Policies in the 1990s* (Kingston, Ont.: Queen's University, John Deutsch Institute for the Study of Economic Policy, 1985), p. 9.

Table 1
Stages of the Welfare State

	Experimentation (1870s–1920s)	Consolidation (1930s–40s)	Expansion (1950s–60s)	Reformulation (1970s–?)
Economics				
Events	international diffusion of business cycle; dislocations of industrialization	depression, wartime planning, destruction, reconstruction in austerity setting	unexpected, sustained economic growth	unexpected combinations of recession and inflation
Reactions	relief of distress via *ad hoc* exceptions to 'laws' of political economy	integration of social expenditures with doctrines of demand management	intensified commitment to full employment; growthmanship as solvent of economic tradeoffs	*ad hoc* attempts to subordinate social policy to a new sense of security
Politics				
Events	workers' movements, suffrage extensions, growth of mass parties	discrediting opponents of national government activism	political bidding and group competition for painless policy growth	political disaffection; electoral volatility; distrust in traditional appeals
Reactions	policy innovations seeking to accommodate Liberal, Conservative, and Socialist principles	all-party governments in war; emerging consensus on postwar reconstruction	declining necessity for political commitment and building; 'end of ideology' ideology	competition to reduce expectations and avoid unpopularity; neo-liberal attacks on tax, spending, and bureaucracy issues
Social policy				
Form	innovation and volatility in programing 'constitutional' argument on boundary problems	unification of previous experiments	filling gaps and extending inherited approaches	reopening 'constitutional' issues; inadvertent extension in boundaries of social policy
Contents	dispensations for the deserving poor and working class; social insurance invented	remedies for risks shared by all citizens	compensations to preserve rising living standards; group struggle for relative shares of increases	marginal slowdowns in spending and programing; low-cost substitute means to seek same goals
Value choices	attempts to reconcile liberty, equality, and security	demonstrations that the three values are mutually reinforcing	denial that important value choices are at stake	new recognition of 'tragic' choices; search for positive-sum relationships

Source: Hugh Heclo, "Toward a New Welfare State," in Peter Flora and H.J. Heidenheimer, eds., *The Development of Welfare States in Europe and America* (London: Transaction Books, 1984), Table 11.1.

As Table 1 indicates, for the first time in the evolution of social policy, it became possible to reconcile the broad societal goals of liberty, equality, and security. "Social policy was not only good economics, but the economic and social spheres of public policy were integrally related to each other."[3]

Working in tandem, these events launched the modern Canadian welfare state. In the process, the relationship between the citizen and the state underwent a fundamental transformation. In response to the loosening of traditional ties — the family, the church, social and friendship networks, customs and traditions — the state was called on to supplant the traditional sources of protection and economic security. Not only was charity institutionalized, but, as Scott Gordon notes, "it was transferred from the realm of benevolence into that of justice," and in the process "the state conferred upon its citizens the right to receive aid from society with a minimum of reference to the sentiments of compassion and benevolence which activated the older forms of charity."[4]

In discussing the evolution of Canadian social policy, Keith Banting argues that this period of consolidation of the welfare state — and, actually, the expansionary phase as well — was characterized by two major processes. The more important was a "flight from selectivity," by which Banting means the adoption of universal programs in the form of either social insurance or demogrants. Banting views the move toward universality as the dominant theme in the development of the Canadian welfare state.

The second process, clearly less important in Banting's view, is what he calls the "modernization of selectivity," typified by the shift from subjective and often stigmatizing *means-tested programs* of the era of experimentation to objective *income-tested programs* of the recent era — such as the Guaranteed Income Supplement (GIS) for the elderly and the refundable child tax credit.

---

3 Heclo, "Toward a New Welfare State," p. 391.

4 Scott Gordon, *The Demand and Supply of Government: What We Want and What We Get*, Economic Council of Canada Discussion Paper 79 (Ottawa: Economic Council of Canada, 1977), pp. 43–44.

Banting makes a further telling observation about the development of Canadian social policy. The motivating force behind the policy evolution was a "drive for mass security, for predictability, for social rights,"[5] rather than for redistribution, which is why Banting argues that the "flight from selectivity" (that is, universality) rather than the "modernization of selectivity" (income-tested targeting) is the dominant feature of the Canadian welfare state:

> Much confusion surrounds discussion of the welfare state and redistribution, especially redistribution between rich and poor. There is a wide-spread assumption in current debate that the expansion of social policy over the last 40 years was intended to carry out a redistributive purpose. In fact, the creation of the welfare state represented a shift away from redistribution as the primary goal of social policy.
>
> Whatever else one might say about the social programs of the interwar period, such as local relief and the 1927 *Old Age Pension Act*, they were clearly redistributive programs. They were selective programs, with means-tested benefits which were financed from general revenues.
>
> In a sense then, the modern welfare state represented a move away from redistribution, at least in the vertical sense. Redistribution was to be from the employed to the unemployed, the healthy to the sick, the non-aged to the aged, and so on. Many of the founders of the welfare state probably thought that as a secondary consequence there would be an important narrowing of the general pattern of income inequality, but that was not their primary aim.[6]

The Era of Expansion

Then came the unanticipated and prolonged economic expansion of the 1950s and 1960s. During the latter decade, the unemployment rate hovered near 4 percent and productivity increased by 50 percent. The world economy was not only tranquil but expanding rapidly. Canada was nestled comfortably at or near the top of the

5 Banting, "Universality and the Development of the Welfare State," p. 9.

6 Ibid., pp. 10–11.

international ranking of per capita GNPs. Given this environment, it is hardly surprising that Canada used its cushion of resource-driven growth to mount a comprehensive and generous network of transfers to persons, businesses, and governments. The accomplishments on the social policy front in this period were remarkable. Indeed, much of what still passes as Canada's social policy infrastructure is traceable to this era. In the Pearson years alone, one can cite the Canada and Quebec Pension Plans, the GIS, the Canada Assistance Plan, the first comprehensive equalization program, the comprehensive medicare and hospitalization programs, and the Department of Regional Economic Expansion. And the first year of the 1970s saw the reformulation and expansion of the UI program.

Several comments on this expansion era are warranted. First, although the network of social programs underwent a veritable explosion, the declining political and economic price of social policy meant that politicians no longer had to strive to build on and maintain the earlier consensus underlying the consolidation of the welfare state:

> After a generation or more of expansion, the democratic welfare states had produced a policy system that was admirably attuned to — and presumed — continuous economic growth. Politically it was a low cost system whose operation generated minimum conflict and maximum, if somewhat passive, support. Economically it was in rough harmony with conventional thinking about fiscal management. Socially it avoided raising difficult questions about social values. *Commitments on the welfare state rose as commitment to it fell* [emphasis added].[7]

Second, and related, social policy came to be aimed more and more exclusively at solving social problems without reference to key economic interactions such as efficiency, work incentives, and regional adjustment. Given its economic surplus, Canada could even afford the luxury of implementing programs — such as the regional

7 Heclo, "Toward a New Welfare State," p. 399.

benefits component of unemployment insurance (UI), which discourages interregional labor market adjustment — whose very design and intent was to slow down economic adjustment.

Third, with the engines of economic growth humming along smoothly, the nature of the demands on government in the name of "social policy" altered rather dramatically. The original concerns about economic security became appeals to compensate those who lagged behind in the relative income race. Moreover, with the refinement of the principles of economic welfare and social justice, the demands on the state transcended the domain of human needs and entered the realm of human wants. Indeed, they broadened into a very encompassing set of claims — social, political environmental, cultural. As Daniel Bell has remarked, "the revolution of rising expectations, which has been one of the chief features of western society in the past 25 years, is being transformed into a *revolution of rising entitlements* in the next 25 [emphasis added]."[8] Thus, there was a tendency for social policy to move even further from the conception of a safety net designed to facilitate adjustment to a changing economic reality and toward the conception that its role was to provide citizens with something approaching property rights to the status quo.

Finally, despite this explosion of the social policy network, the cumulative federal fiscal balance over the 1965–74 period was a *surplus* of some $2.75 billion.

In summary, therefore, Banting's description is apt: universality did underlie the social policy thrust, and the goals were geared more to economic security and, later, to socio-economic entitlements than they were to addressing issues relating to inequality.

The Reformulation Stage

The unanticipated economic and fiscal surpluses that characterized the era of expansion were followed by the equally unanticipated

8 Daniel Bell, "The Public Household or 'Fiscal Sociology' and Liberal Society," *The Public Interest* 37 (1974): 39.

economic turmoil and slow growth of what Heclo refers to as the "reformulation" stage of social policy evolution. For present purposes, it is convenient to associate the beginning of this reformulation stage with the world energy price increases that occurred in 1973 and 1974. Since then, the turnaround in fiscal prospects has been dramatic: the $2.75 billion cumulative federal fiscal surplus of the 1965–74 period became a cumulative *deficit* of some $125 billion during the 1975–84 period — and more than this again in the most recent five-year period. Corresponding to this change in economic and fiscal fortunes was a similar change in the fortunes of social policy. Just as the expansion era allowed social policy to take on a life of its own, the reformulation stage has meant that social policy has fallen on hard times.

The economic pessimism of the past decade has substantially revived the traditional view that there are inherent contradictions among the basic values of the democratic welfare state:

> It [the welfare state] was expensive, so expensive that costs of social policy were themselves posing a threat to individuals' economic security. It was ineffective, generally in providing high standards of service and particularly in making inroads into the gross inequalities of market-oriented societies. And it was dangerous, threatening to pursue welfare at the expense of individual liberty.[9]

Moreover, a growing number of Canadians have come to view the social policy network, with its anti-adjustment bias, its poverty traps, and its perverse incentives, as a drain on the wellspring of economic growth. To be sure, the fact that during the expansionary period social policy came increasingly to be viewed as a "residual luxury supported by the nation's economic surplus"[10] surely made it far easier prey than it would have been had it developed as part of an integrated economic and social framework.

---

9 Heclo, "Toward a New Welfare State," p. 400.

10 Ibid., p. 403.

These dramatically altered prospects on the economic front necessarily had substantial implications for the "appropriate" role and design of social policy. Specifically, social policy has to facilitate and assist the occupational, industrial, and often geographic relocation that the new economics requires of the current generation of Canadians. We no longer have the luxury of designing social policy independently of the underlying economic environment. In particular, we can no longer afford those aspects of the social policy network that serve to impede adjustment or to entrench the status quo. On the other hand, the changing demands on the economic front also create new needs that social policy must address.

Where does all of this leave the "economic security" underpinning of the existing social policy network? A large part of the answer to this important question is that there can be little economic security for Canadians in an economy that is slow to adjust. Hence, social policy must become fully integrated with economic policy. In the 1960s, rapid economic growth allowed Canada to mount a comprehensive social policy network; the challenge of the 1990s is to rationalize this network in order to help restart the sputtering engines of economic growth. The other part of the answer is that rationalizing some key aspects of social programs — in order, for example, to remove poverty traps and to encourage work, initiative, and adjustment — is compatible in principle with retaining the basic income support aspects of the social network. Moreover, as a bonus, these changes can be implemented in a manner that, in my view, accords with what the typical Canadian deems to be equitable.

Thus, economic stagnation-*cum*-restructuring brought about a rethinking of the role of social policy. As part of this rethinking, concerns over income inequality and poverty rose to the fore — the focus shifted from horizontal equity to vertical equity. As Banting notes, this increased emphasis on vertical redistribution led to a chorus of criticism from both ends of the political spectrum:

> It became commonplace for the political left to argue that the welfare state had failed because the distribution of income had remained so frustratingly stable over the post-war period. Simi-

larly, it became commonplace on the political right to argue that universal programs are wasteful because they are not targeted on those most in need.[11]

This perception led the political left to assert that the welfare system must do more, whereas neo-conservatives now asserted that it must do less.

A Perspective on the 1980s

The reader will note that much of the above analysis of the "reformulation stage" of social policy evolution uses the present tense. This is appropriate, since Heclo's characterizations in Table 1 of the economic conditions ("*ad hoc* attempts to subordinate social policy to a new sense of scarcity") as well as the political forces ("neo-liberal attacks on tax, spending and bureaucracy issues") still ring true. In previous writings in this area, I have characterized Canada's version of this "reformulation" stage of social policy evolution — as it applies in the current time frame — in terms of three challenges and three tradeoffs.[12] In skeletal form, the essence of these triads is as follows:

The Triad of Challenges

The Fiscal Challenge

- Deficits and debt servicing are crowding out social programs.
- Federal cuts in interprovincial transfers and programs such as UI are shifting deficits to the provincial level.
- The provinces already have social policy problems: with expenditures on health heading toward 40 cents of each provincial

11 Banting, "Universality and the Development of the Welfare State," p. 11.

12 See Thomas J. Courchene, *Social Policy in the 1990s: Agenda for Reform*, Policy Study 3 (Toronto: C.D. Howe Institute, 1987); and idem, "Social Policy," in Thomas E. Kierans, ed., *Getting It Right*, Policy Review and Outlook, 1990 (Toronto: C.D. Howe Institute, 1990).

spending dollar, health is tending to crowd out other social programs, such as postsecondary education.

- Compounding the provinces' fiscal problem is the "invasion" of the federal government, via the goods and services tax, into traditional provincial revenue sources. The result is that some provinces are probably seriously contemplating embarking on their own provincial personal income tax systems.[13]

The Economic Challenge

The economic challenge to social policy involves coming to grips with the realities of the new world economic order. In the current global environment, the rewards will go to those countries that can transfer resources to sunrise industries. The resulting challenge to social policy is twofold:

- to ensure that the incentives within the social policy network encourage, rather than inhibit, this required adjustment on the economic front; and
- to ensure that the social safety net evolves in a manner that reflects the changing needs of citizens as they themselves adapt to the new economic order.

The Socio-Demographic Challenge

New groups are at risk in the 1990s — for example, single-parent families, persons with obsolescent skills. This runs into the fiscal challenge — monies may have to come from elsewhere in the social policy envelope.

---

13 See Thomas J. Courchene and Arthur E. Stewart, "Personal Income Taxation," in Mel McMillan, ed., *Provincial Finances: Plaudits, Problems and Prospects* (Toronto: Canadian Tax Foundation, forthcoming).

The Triad of Tradeoffs

Adjustment versus Entitlements, or Flexibility versus Entrenchment

- Reformulation obviously argues in favor of adjustment and probably in favor of the erosion of many "deemed" entitlements.
- Often, this tradeoff is expressed as selectivity versus universality. Note that, in 1978, the Liberal government rolled back the family allowance from $25.60 to $20.00 monthly and replaced this by a refundable child tax credit of $200 annually — or three times the value of the family allowance cut for low-income families. This is the essence of the argument for selective rather than universal programs. Surely, the refundable child tax credit scores highly in terms of equity.
- In a complex, interactive system, whether one of the many programs is "universal" is likely irrelevant because its impact will or can be offset by other programs. What matters to the recipient is the effect of the *system*.
- Far too many social policy initiatives now in place embody incentives — such as 100 percent tax rates on welfare or UI benefits beyond a threshold level — that drive recipients to act in ways that may provide short-term benefits but that are not in their, or society's, longer-term interests.

Private Sector versus Public Sector

- The reformulation stage has been characterized by a wave of privatization, driven by ideological, economic, and fiscal rationales. This will continue.
- Privatization is much broader than the selling off of Crown assets. It also includes *privatizing the financing* of a service that continues to be produced by the public sector, such as tuition fees and various charges for public service, and *privatizing the production* of a service that continues to be financed by taxation,

such as contracting out and private-sector training financed by unemployment insurance.

Decentralization versus Centralization

- Some areas of social policy probably call for greater centralization. Aspects of postsecondary education come to mind. The provinces' approach to the tradeoffs across access, funding, and quality has largely been to guarantee access, to pare funding, and to hope that quality is maintained. At some point, however, quality will become impaired. In other words, the provinces are approaching postsecondary education largely in "social policy" terms, whereas human capital formation and knowledge are increasingly at the cutting edge of international competitiveness and, therefore, integral to overall economic policy. Ottawa likely will have to step into this breach and emphasize (or fund) those aspects of higher education that underpin Canada's ability to penetrate foreign markets.
- For most other social programs, decentralization is the order of the day and is fully consistent with the reformulation stage of social policy evolution.
- Particularly welcome, in my view, is the ongoing provincial experimentation in the areas of health and welfare delivery. The fiscal pressures are such that if a province stumbles on an effective way to deliver a service, it likely will be copied in other provinces. This is the exciting aspect of a federal system. Indeed, such experimentation in Saskatchewan in the late 1950s and early 1960s gave Canada medicare. The system needs to innovate again.
- The drive toward decentralization is not independent of the fiscal overhang. Ottawa's cuts in Established Programs Financing are clearly decentralizing. If the provinces maintain programs by increasing taxes, this decentralization will be reflected in the ratio of provincial taxation to federal taxation. If the provinces respond by altering programs, this is also decentralizing in the

sense that these established programs will progressively come under provincial design.

- More generally, it was federal largesse (in the expansionary era) that created national programs. These programs will still remain national in the sense, for example, that they are portable across provinces, but it is also evident that federal fiscal restraint in terms of transfers to the provinces inevitably will transfer greater control over these programs to the provinces.

In summary, therefore, my approach to social policy has been that the triad of challenges is driving the system in the direction of emphasizing flexibility (adjustment) over entitlements (entrenchment), private-sector participation over public-sector participation, and decentralization over centralization. Moreover, my perception is that this framework will continue to drive social policy in the near future.

In the remainder of this chapter, however, I want to argue for a new social policy framework. As noted, in the expansionary era social policy did have a life of its own, as it were. The emphasis was on universality and economic security, and the rising fiscal dividend allowed the evolution to proceed quite independently of efficiency or adjustment. In the reformulation stage, social policy has been and is being increasingly subjected to economic and adjustment imperatives with little or no philosophical underpinning as to the appropriate role for social policy — except, of course, that it be driven by redistributive and incentive concerns rather than security concerns. In effect, the implicit role of social policy is to enable Canadians to become the mobile, hedonistic, utility maximizers so beloved of the neoclassical paradigm. In some areas — such as the clawbacks of Old Age Security (OAS) and family allowances — the proposals are, in my view, appropriate. In other areas, such as UI, the proposals merely cut back on the size of the program with little or no attempt to alter the incentive problems internal to the program. I think it is possible, indeed essential, to rethink the role of social policy so that it incorporates both of these aspects — a set of social policy priorities and a contribution to economic well-being.

Before addressing this new framework, it is instructive to focus on two rapidly emerging factors that have the potential for steering social policy onto a quite different evolutionary path. The first relates to the operations of the Charter and Freedoms and the second to the impact of globalization — more specifically, the Canada-U.S. Free Trade Agreement (FTA).

The Charter and Social Policy

Literally hundreds of Charter-related challenges to Canada's social policy framework are now working their way through the courts. While these challenges range all over the map, it is possible to isolate at least three major issues underpinning a number of them.

The first of these relates to the age limits associated with many social programs. This concern about age is not entirely focused on the elderly or retirement end of the social policy spectrum. For example, under the income tax provisions, a single parent can claim a spousal exemption for a child under 18. Why not 19?

The second area relates to the definition of family status in order to qualify for benefits. Among the most glaring issues here is that related to the spousal allowance for all widows and widowers 60 to 64 years of age, regardless of when the spouse died (at age 65, the OAS/GIS kicks in). What about divorced persons aged 60 to 64, or persons who were never married?

A final major area relates to the definition of income that triggers a reduction in benefits. Different programs have different definitions for what constitutes outside income that would reduce the benefits under the program.

It is quite clear that the equality provision (Section 15) of the Charter and the prohibition of age discrimination have the potential for undermining the entire social policy framework. To be sure, "undermining" is a loaded word here. Over the years, Canada's social policy network has essentially responded to perceived needs on the part of certain groups of Canadians. It is hardly surprising that this "patchwork quilt" will fare poorly when subjected to Section 15(1), which states: "Every individual is equal before and under the law

and has the right to equal protection and equal benefit of the law without discrimination."

The courts can exercise several options here. First, they could defer entirely to Parliament, essentially recognizing the existence of inconsistencies or inequities, but viewing these as falling with the limits that, in the words of the Preamble to the Charter, "can be demonstrably justified in a free and democratic society." Second, they could strike down the offending pieces of legislation or programs and, in effect, again defer to Parliament to enact new legislation consistent with Charter principles. Third, the courts could take on a far more activist stance and impose a legislative scheme to replace that found constitutionally defective. The extreme variant of judicial activism is for the courts to extend benefits judicially — that is, to appropriate public funds for a purpose not authorized by Parliament.

Presumably, the courts will invoke all three approaches, depending on the nature of the various challenges or cases. It is instructive, however, to focus on the recent decision in the "Schachter case", where the plaintiff (Shalom Schachter) challenged the UI maternity provisions that restrict benefits to mothers. Part of his Charter-related challenge was based on the fact that child-care leave for adoptive parents can be taken by either parent. The court not only found in favor of Schachter, but went further by pointing out that child-care benefits for adoptive parents are quite different from maternity benefits for natural parents, so that there is a basic inequality between the two regimes. The remedy recommended by the court was to rewrite the relevant provision of the UI maternity leave benefits to incorporate an additional 15 or so weeks for child care — which can be accessed by either parent. At the Federal Court of Appeal, one of the main issues centered around the role of the judiciary in circumstances where the granting of a Charter remedy results in a judicial amendment to the legislation, and where it also entails the appropriation of public monies from the Consolidated Revenue Fund for a purpose not authorized by Parliament. The court upheld the remedy in a split decision, and the case presumably is now on its way to the Supreme Court of Canada.

The general point is that if the courts engage in judicial activism of the type reflected in the Schachter case — where the approach to remedy in cases of discrimination or inequality is to "level up" to the most generous existing provisions — then the revenue costs will be enormous. For example, levelling up the widow and widower allowances for those aged 60 to 64 to include divorced and never-married individuals will result in an estimated five or sixfold increase in costs. All told, we are probably talking about billions of dollars of additional social policy costs, which will easily swamp any potential savings from initiatives such as the OAS and family allowance clawbacks. Effectively, what will result is a new version of universality, this time based on Charter principles.

While not in any way attempting to downplay equity or Charter concerns, there is another way to rephrase the issue: If the social policy envelope were to expand by, say, $10 billion, will an activist judiciary allocate this money in the best way possible? The answer is surely no. If the courts do proceed as indicated in the decision on the Schachter case, Parliament's response eventually will have to be to shelve much of the existing social policy framework and to start anew along the lines of, say, an income-tested guaranteed annual income (or negative income tax) to apply to all Canadians regardless of age or region.

For purposes of this chapter, however, the message is twofold. First, the reformulation stage of Canadian welfare evolution may well be substantially derailed by the courts. Second, to the extent that this begins to materialize, pressure will mount for a complete rethink of the role of social policy, since pouring more money into a system designed to cater to the social policy needs of the 1960s is increasingly out of step with the social policy needs of the 1990s.

Regional Transfers, the Charter, and Free Trade

While the Charter's influence likely will increase social policy spending, other forces may well serve to decrease the social policy envelope.

In particular, Canada's generous approach to regional transfers is likely to come under attack from several directions. Intriguingly — although highly speculatively — one of these is the equality section of the Charter. Consider the following hypothetical case. Two individuals, identically situated in terms of age, family status, and so on, lose their jobs after, say, 14 weeks of work. The worker who resides in an area where the unemployment rate is 11.0 percent receives 33 weeks of benefits — rising to 43 weeks if the unemployment rate hits 16 percent. The worker who resides in an area where the unemployment rate is 10.9 percent (or lower) is not eligible for any benefits. Section 36 of the Charter (regional benefits) notwithstanding, my view is that this discrimination between otherwise identically situated individuals will not withstand a challenge under Section 15 of the Charter. Even if this were the case, it begs the question of whether the courts would find regional benefits to be unconstitutional or "level up" all benefits to those available in high-unemployment regions.

The second force operating on the regional component of the social policy package arises from the economic and political implications of the FTA. To put the point bluntly, an east-west transfer system does not square well with north-south economic integration. Note that this issue transcends specific regional transfers; it also applies to nationwide pay scales, wage patterning, and so on.[14] Moreover, the political economy underpinnings of the regional transfer system are likely to undergo considerable erosion.

Recall that, during the consolidation stage of social policy evolution, the operations of the Keynesian multiplier process helped to reconcile the goals of liberty, equality, and security. This applied to the regional operations of social policy as well. Transfers to the poorer regions generated from Ontario tax dollars were tolerated because the east-west nature of trade ensured that the "second-round" spending impacts likely would come to rest in Ontario. As

14 See Thomas J. Courchene, "Rethinking the Macro Mix: The Case for Provincial Stabilization Policy," in Robert C. York, ed., *Taking Aim: The Debate on Zero Inflation*, Policy Study 10 (Toronto: C.D. Howe Institute, 1990), pp. 173–234.

Richard Simeon points out in Chapter 3, to the extent that the FTA shifts the poorer regions' balance-of-payments deficits away from Ontario and toward the United States, these second-round expenditures likely will not come to rest in Ontario. This will erode the political — or political economy — base for regional transfers just as the FTA itself erodes their economic base. The overall impact of this set of factors is to reinforce the philosophy underlying the earlier triad of challenges and tradeoffs and, more generally, the reformulation stage of the evolution of the welfare state.

With all of this as backdrop, I now turn to some tentative observations about the possibility of carving out a new role for social policy.

Social Policy as the Centerpiece of Sustainable Economic Development

In 1987, a report by a United Nations commission chaired by Norwegian Prime Minister Gro Harlem Bruntland popularized the phrase "sustainable development". The report defined it as "a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are all in harmony and enhance both current and future potential to meet human needs and aspirations."[15] This has come to mean quite different things to different people.

I will probably confuse the issue further by focusing on what the Energy Options Advisory Committee referred to as "sustainable economic development".[16] Essentially, this is the notion that Canadians should manage and utilize their resources so that the next generation is left with an endowment of capital (physical, human,

15 World Commission on Environment and Development [The Bruntland Report], *Our Common Future, Report to the United Nations General Assembly* (New York: Oxford University Press, 1987), p. 46.

16 Energy Options Advisory Committee, *Energy and Canadians into the 21st Century, Report to the Minister of Energy, Mines and Resources* (Ottawa: Supply and Services Canada, 1988).

environmental) at least on a par with that which the present generation inherited. This concept, too, is open to many interpretations. Mine is one that uses technology to ensure a physically and environmentally sustainable future, but it also uses social policy, particularly human capital policy, as the critical link to ensure that the future is sustainable in terms of generating acceptable income levels — or of meeting human needs and aspirations, in the words of the Bruntland Report.

In a sense, this underscores the now-familiar notion that Canada must make the transition from a resource-based economy to a knowledge-based economy. Resources will, of course, remain important to Canada, but largely to the extent that they, too, increasingly incorporate knowledge as a key input. What may be novel is to view social policy as the essential nontechnological ingredient for a successful transition to a new, sustainable state.

While this approach may appear evident to many readers, what may be much less evident is just how ill-suited current social policy is to playing this part. Consider the following summary observations.

U.S. Senator Daniel Moynihan has asserted that "the United States has become the first society in history in which the poorest group in society are the children, not the aged."[17] Moynihan may or may not have his history right, but this is an increasingly apt description of the Canadian scene as well, and it represents a very serious problem: Canada's approach to human capital is failing a large part of this country's youth at precisely the time when economic sustainability will require that we excel in the creation of high-value-added production and trade.

Indeed, an increasing proportion of the elderly are in the upper-income class[18] — largely because they have availed themselves of

17 Subrata Chakravarty and Katherine Wiseman, "Consuming Our Children," *Forbes*, November 14, 1988, p. 225.

18 One study notes that the 25 percent of Americans who are 50 years of age and older control 70 percent of the total net worth of U.S. households. Reasonably comparable figures are likely to hold for Canada. See Ken Dychtwald and Joe Dychtwald, *Age Wave: The Challenges and Opportunities of An Aging America* (Toronto: Bantam Books, 1990), p. 268.

tax-assisted saving and pension vehicles during their working lives. Accordingly, it seems fully appropriate, on equity grounds and in terms of this new social policy concept, that ability-to-pay should dominate the transfer system to senior citizens. In practice, this means that OAS payments should be clawed back, as a first step; the necessary second step would be to convert the pension income provision into an income-tested refundable credit. This would provide extra income to the low-income elderly at the expense of the upper-income elderly, with some free resources to transfer to human capital formation. Intriguingly, the elderly themselves are much more in favor of this proposition than are younger Canadians. In a recent Gallup Poll, 41 percent of senior citizens polled were in favor of restricting the old age pension to low-income elderly, while only 26 percent of those aged 18 to 29 felt this was appropriate.

At the same time, anecdotal evidence and, increasingly, hard research point in the direction of a disappearing middle class. The good news is that some of those in the middle class are breaking into the upper-income class. The bad news is that a greater proportion are falling into the lower-income group. A large part of the reason for this is the inadequate recognition in Canada of the value or status of the "technologist". In a knowledge-intensive society, technologists will be synonymous with the middle class. Yet the notion of paramedics, paralegals, paradentals — let alone an apprenticeship system — is foreign to Canada's underlying policies in most of the relevant areas, and anathema to a system that traditionally vests powers in self-regulatory professional associations. Indeed, "sacred trusts" such as medicare locked us into professional and high-technology treatment because paraprofessional approaches did not qualify for shared-cost funding under the Established Programs Financing arrangements.

As I have argued elsewhere,[19] the solution requires some radical changes to our approach to social policy in general and to human capital formation in particular. While the information technology

19 See, for example, Courchene, "Social Policy."

revolution and the process of globalization have wrought dramatic changes in the structure of the private sector, the public sector — especially the education sector — has basically remained untouched. And it will continue to remain sheltered (and self-indulgent) until some basic incentives are altered. Reform from within is likely to be a nonstarter.

Foremost among the range of possible alternatives is the transfer of all government funding for postsecondary education — university and community colleges — into student education vouchers. In one fell swoop, this would ensure that postsecondary institutions become more responsive to students' needs, since it would promote the possibility of new entry into both the university and community-college spheres.

This focus on sustainable economic development as it relates to social policy also implies a substantial rethinking of several other areas of the current social framework. For example, given the fact that Canada's population is aging, we must ensure that we get the most out of that proportion of the population that is in the labor force. In my view, this requires — on efficiency as well as equity grounds — a very flexible set of relationships for female attachment to the labor force during the child-bearing years.

There are two aspects to this. The first involves a societal commitment that child bearing not be used as an excuse to unwind, as it were, the skills built up by female labor force participants. Traditionally, this has been argued from the vantage point of equity. What I am arguing here is that there is an *efficiency* aspect to all of this. Canadian society and business is, in effect, undervaluing and underemploying the talents of the female labor force based on the probability or consequences of maternity leave. As our society ages, the implications of this will be increasingly costly both to society and to the women affected.

The second issue relates to day care. It should be evident that the essence of a successful transition to sustainable economic development must involve investment in the human capital of the next generation. Viable day-care programs are not the whole answer,

but they are surely part of the solution, particularly since, as a side benefit, they will facilitate female re-entry into the labor force.

Placing individual development at the center of social policy has rather obvious implications for other parts of the social envelope. For example, the new emphasis on population health is at odds with the typical compartmentalization of health and welfare into two separate departments. It would be far better to combine the payments (preventive) aspects of health and welfare in one department and to integrate health and social services in another. Until now, medicare has been a "top-down" system — that is, funders, providers, and institutions have effectively driven the system. The time has come to run these systems from the bottom up, as it were, with the consumer as the focus as well as one of the determining forces.

As a final observation, there is plenty of room for regional policy in this new social policy concept, provided that the goal is to ensure equality of opportunity and access. However, there is virtually no room for policies that emphasize "place" over "people".

These brief reflections, no doubt influenced by my market perspective, do not by themselves constitute a new approach to social policy. I believe, however, that the general framework is the appropriate one. It embodies the imperatives that are coming from the global economy, but it does so in a manner that places primary emphasis on the well-being and betterment of individual Canadians. Moreover, it reintegrates social and economic policy. Indeed, it goes much further: social policy, particularly its human-capital dimension, becomes the centerpiece of a successful transition to a new economic sustainability.

References

Banting, Keith. "Universality and the Development of the Welfare State." In *Report of the Forum on Universality and Social Policies in the 1990s*, edited by Alan Green and Nancy Olewiler. Kingston, Ont.: Queen's University, John Deutsch Institute for the Study of Economic Policy, 1985.

Bell, Daniel. "The Public Household or 'Fiscal Sociology' and Liberal Society," *The Public Interest* 37 (1974).

Chakravarty, Subrata, and Katherine Wiseman. "Consuming Our Children." *Forbes*, November 14, 1988.

Courchene, Thomas J. "Rethinking the Macro Mix: The Case for Provincial Stabilization Policy." In *Taking Aim: The Debate on Zero Inflation*, Policy Study 10, edited by Robert C. York. Toronto: C.D. Howe Institute, 1990.

———. "Social Policy." In *Getting It Right*, Policy Review and Outlook, 1990, edited by Thomas E. Kierans. Toronto: C.D. Howe Institute, 1990.

———. *Social Policy in the 1990s: Agenda for Reform*, Policy Study 3. Toronto: C.D. Howe Institute, 1987.

———, and Arthur E. Stewart. "Personal Income Taxation." In *Provincial Finances: Plaudits, Problems and Prospects*, edited by Mel McMillan. Toronto: Canadian Tax Foundation, forthcoming.

Dychtwald, Ken, and Joe Dychtwald. *Age Wave: The Challenges and Opportunities of An Aging America*. Toronto: Bantam Books, 1990.

Energy Options Advisory Committee. *Energy and Canadians into the 21st Century, Report to the Minister of Energy, Mines and Resources*. Ottawa: Supply and Services Canada, 1988.

Gordon, Scott. *The Demand and Supply of Government: What We Want and What We Get*, Economic Council of Canada Discussion Paper 79. Ottawa: Economic Council of Canada, 1977.

Heclo, Hugh. "Toward a New Welfare State." In *The Development of Welfare States in Europe and America*, edited by Peter Flora and H.J. Heidenheimer. London: Transaction Books, 1984.

World Commission on Environment and Development [The Bruntland Report]. *Our Common Future, Report to the United Nations General Assembly*. New York: Oxford University Press, 1987.

10 Investing in People: A Policy Agenda for the 1990s

Harvey Lazar

The need for human capital development has been growing in importance in recent years, in relation to economic and social objectives. Moreover, there is every reason to believe that this trend will persist through the 1990s and into the twenty-first century. Policies and programs relating to education and labor force training, therefore, will necessarily have to receive growing prominence in the Canadian political agenda of the 1990s. The focus in this chapter is much more on training than on education, since aspects of education policy are examined by George Pedersen in Chapter 12.

Demographic changes are doubtless a part of the reason for the growing importance of human capital, and they will be discussed later in the chapter. A more fundamental element, however, is the transformation that is taking place in global economic structures. Some of the key factors in economic growth — capital, technology, and business know-how — now travel easily and swiftly across borders. In conjunction with the ongoing revolution in telecommunications technology, improvements in transportation, and more market-oriented government policies, national economies have become more closely integrated into an increasingly global economy. Accordingly, global market forces have come to play a growing role in determining the supply of and demand for different kinds of labor. As will be seen below, this has implications for the distribution of

income in Canada, as well as for the overall performance of the economy.

One result of these developments has been a concern, in Canada and in other industrialized countries, that domestic firms will find it increasingly difficult to compete with industries in countries where labor can be hired at a small fraction of domestic wages. The response to this concern has been a greater focus on public policies that, by creating higher levels of productivity growth, will enable Canadians to continue to earn the comparatively high wages they seek. In this regard, human resource development policies are among the key policy instruments that Canada has at its disposal.

The chapter considers four groups of questions:

- What are some of the relevant trends in the labor market today?
- Is there evidence to support the assertion that human capital investment is becoming more important? Is there a growing employability gap between better-educated people and those with less education and training?
- How is Canada performing on the question of human capital development? Are we educating and training Canadians to the standards of our competitors?
- How can the current situation be improved? What are Canada's policy options?

Current Labor Market Trends

Labor market growth was significantly slower in the 1980s than in the two previous decades. In the 1960s, the labor force grew by just over 3 percent annually, while in the 1970s the annual growth rate was closer to 4 percent. In the 1980s, this rate dropped to 2 percent annually, and the same rate is anticipated for the 1990s.

For reasons that will become clear below, there are two particular aspects of labor force growth worth noting here. The first is that, as the baby boom generation reached working age, annual rates of youth labor force growth were over 5 percent in the 1960s and

around 4 percent in the 1970s. In the 1980s, however, the youth labor force declined by more than 1 percent per year. The Economic Council of Canada now anticipates a yearly growth of around 1 percent in the 1990s, a modest turnaround from the past decade but still a far cry from the 1960s and 1970s.

The second aspect is that, although labor force participation rates for females are continuing to rise relative to those for males, the rate of increase for females in their prime working years will almost certainly slow in the coming decade, since it is already over 80 percent of the rate for males.

With this background, four labor market trends merit special attention:

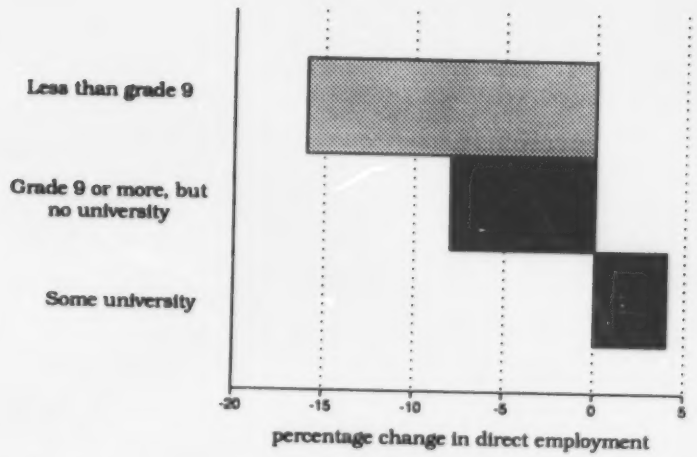
- an increase in jobs requiring good educational skills;
- an increase in nonstandard work forms (generally poorer jobs);
- an increasing inequality in earnings from work; and
- the persistence of structural unemployment.

The first of these trends is well known. There is already a high rate of technical innovation in the workplace, and employers are demanding employees with more education and better training. From 1971 to 1986, for instance, while the total number of jobs in the economy increased by just over 50 percent, the percentage of jobs requiring at least two years of training grew by 84 percent and the percentage requiring postsecondary education rose by 95 percent. The same picture emerges when we look at the direct effects of technological change on employment in specific workplaces. The more education an individual has, the higher the probability that technological change will provide a new job for that person; on the other hand, new technologies are more likely to eliminate jobs that require workers with low levels of education (see Figure 1).

During the 1971–81 period, managerial, administrative and professional, and technical occupations accounted for about one-third of all employment growth. From 1981 to 1986, these occupational groups actually accounted for over three-quarters of the new job opportunities, and projections suggest that they may account for

Figure 1

Change in Direct Employment as a Result of Technological Change, by Educational Attainment Group, Canada, 1971–81



Source: Economic Council of Canada, *Innovation and Jobs in Canada* (Ottawa: Supply and Services Canada, 1987).

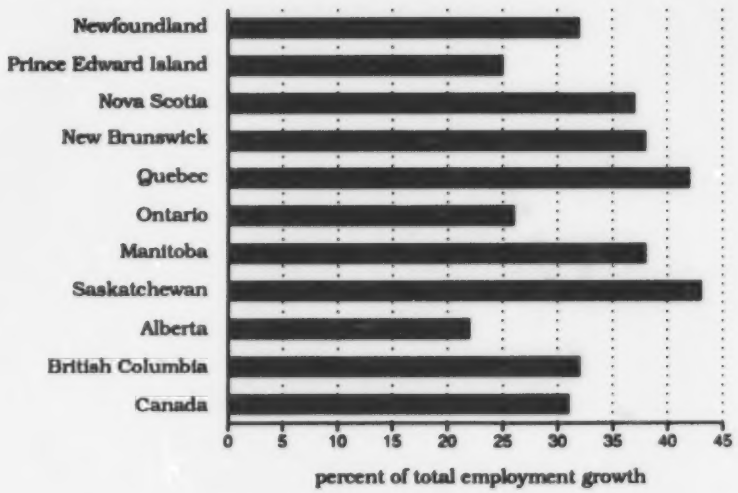
over one-half of net job creation in the 1990s. All of these categories require substantial education and/or training. In short, there is a considerable body of evidence that much of the growth of demand in the labor market will be at the high end.

The second trend relates to "nonstandard" jobs. This term refers to part-time and short-term (less than six months) work, self-employment (where the employer has no employees), and temporary agency jobs. These forms of employment are quite different from the traditional model of a full-time, full-year job.

In the 1980s, nonstandard jobs accounted for no less than one-half of net new job creation; they now account for about 30 percent of total Canadian employment. The largest single category of nonstandard work is part-time employment. By the middle of the 1980s, part-time employment had grown to 15 percent of total Canadian employment, up from only 4 percent in the early 1950s.

Figure 2

Contribution of Part-Time Employment to Total Employment Growth,* by Province, 1975–88



* Estimated by dividing the difference in part-time employment between 1988 and 1975 by the difference in total employment over the same period.

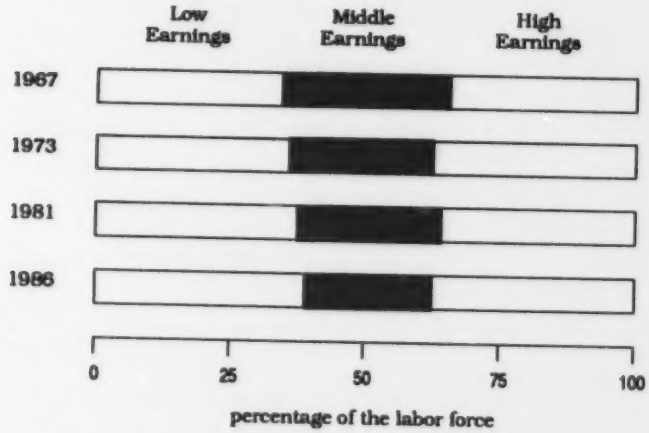
Source: Economic Council of Canada, *Good Jobs, Bad Jobs: Employment in the Service Economy* (Ottawa: Supply and Services Canada, 1990).

From 1975 to 1988, part-time employment provided 30 percent or more of the total employment growth in most provinces, as shown in Figure 2. Moreover, during the 1980s, nearly half of the growth in part-time employment was "involuntary". Other forms of nonstandard employment have also been expanding. The traditional service industries — restaurants, fast food, accommodation, personal service, and retailing, for example — are about twice as likely to provide nonstandard employment as the remaining sectors of the economy.

The third trend — not surprisingly, perhaps, given the trends toward both nonstandard employment and more highly skilled jobs — is a gradual polarization in earnings from work. As shown in Figure 3, the proportions of workers with high earnings and low

Figure 3

The Declining Middle Class in Canada, 1967–86



Source: Economic Council of Canada, *Good Jobs, Bad Jobs: Employment in the Service Economy* (Ottawa: Supply and Services Canada, 1990).

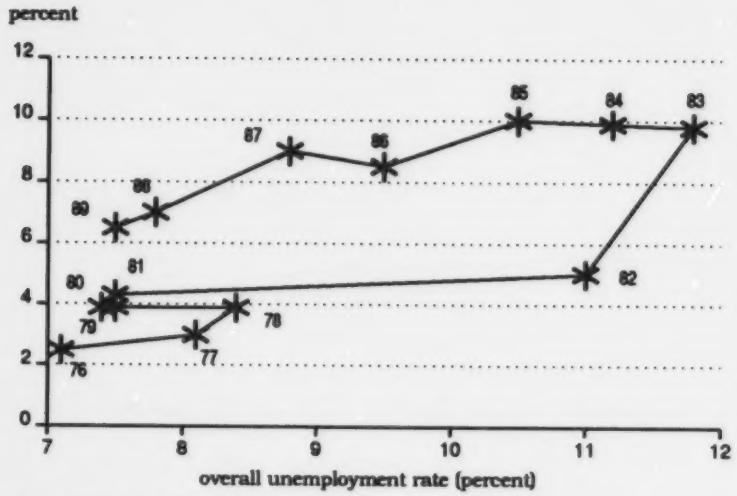
earnings have both been increasing since the mid-1960s, whereas the proportion with middle-income earnings has been declining.[1] Clearly, a substantial part of the growth in low-income earnings reflects the increase in nonstandard employment.

The fourth trend to be noted is the growth in structural unemployment. Much of the high unemployment rates of the early 1980s undoubtedly reflected the worldwide and Canadian recession, with weakening demand leading to losses in employment — economists refer to this as "cyclical" or "demand-deficient" unemployment. By the mid- to late 1980s, however, the still high unemployment rate was due largely to a growing mismatch between the skills and locations of available jobs and the skills and locations of the people looking for work. Indeed, job vacancies — including those at the

1 A person with middle-income earnings is defined as someone whose earnings are within 25 percent of the median earnings level — that is, within a range that is from 25 percent above to 25 percent below the median.

Figure 4

Long-Term Unemployment in Canada as a Proportion of Total Unemployment, 1976–89



Source: Based on data from Statistics Canada.

high-skill end of the market — appeared to be growing even as unemployment remained high. By 1983, the incidence of long-term unemployment as a proportion of total unemployment had climbed to around 9 percent — high by the standards of the previous decade —and persisted at high levels for about four years, a further indication of structural problems (see Figure 4). Also, as the unemployment rate came down from the double-digit levels of the mid-1980s to the still high levels of the late 1980s, the rate of inflation began to accelerate, yet a third indication that structural factors were at work.

Three of these trends — the relative growth in nonstandard employment, growing inequalities in earnings, and a high and persistent level of structural unemployment — raise serious social and economic concerns. At one level, they suggest the possibility of a growing underclass, and the social tensions and political strife that

inevitably would accompany such a development. At the economic level, they suggest an economy operating well below potential.

If these trends were only temporary and likely to reverse themselves, it is perhaps arguable that the best public policy response would be benign neglect. Unfortunately, however, analysis carried out recently at the Economic Council of Canada suggests that this is not the case. For instance, both nonstandard employment and wage polarization continued to grow during the 1980s, while at the same time the youth labor force began to decline. Thus, these developments cannot be explained simply by a temporary flood of young people entering the labor market. Similarly, although the rate at which females entered the labor force grew quickly in the 1980s, larger gains had occurred in the 1960s and 1970s, so the trends of the 1980s cannot be accounted for readily by reference to female labor force participation rates. Moreover, evidence suggests that earnings polarization has been increasing in all age and gender groups, including prime-age males.

While some labor market trends of the 1980s undoubtedly would have been much less pronounced if demographic variables and labor force participation rates had remained as they were in the 1960s, it also appears that demographic change by no means accounts for all or, indeed, for most of what has occurred. Instead, it would appear that much of what has been happening reflects the global changes referred to earlier — rapid technological change and the expanding globalization of production. With these trends, Canada's labor market has been merging with the labor markets of other countries. In the higher-wage countries, people with good education and training are in increasing demand by high-value-added industries such as banking, finance, and a range of business services. At the same time, the goods sector —the sector most subject to international competition — is shedding jobs. Those laid off permanently now have to acquire new skills to get one of the new, higher-paying, more highly skilled jobs, or fall back to a lower-paying occupation. The result, as noted above, is growth at both ends of the job spectrum and erosion in the middle.

The Increasing Importance of Human Capital

A large part of the response to these worrying labor market trends will have to come from more effective human resource development policies, since human capital is becoming more important for economic success both at the economy-wide level and for the individual.

For instance, it has been known for a long time that those who are poorly educated face a greater risk of unemployment than those who are well educated. The gap between the two, however, is growing. In 1975, for example, there was only about a 1½ percentage point difference in the unemployment rate between those with nine years or more of education and those with less. By 1989, that gap had grown to almost 4 full percentage points. The poorly educated are also far more likely to be unemployed for longer periods than those with better education. This high and persistent unemployment creates suffering for the individuals and families affected, and it is also a loss for society — reducing potential output and requiring redistribution in favor of those who are out of work.

With the growth in highly skilled jobs and the evidence of structural unemployment, most analysts are likely to agree that human resource policies should focus, at least in part, on filling the economy's needs for more highly skilled people. But is it also reasonable to argue for higher *basic* skills when the evidence also shows that much of the job growth has been at the low-wage end of the spectrum? The answer must be yes, for a number of reasons.

First, forecasters have a poor record of predicting *specific* skill requirements for the future. A policy based exclusively on trying to fill the gaps in relation to anticipated specific skill shortages would therefore be very risky. Second, it has already been observed that the economy is in fact generating more high-skill jobs and that this trend is expected to continue. Third, there is reason to believe that, over time, supply will help to create its own demand. An economy with well-qualified but underutilized and, by extension, underpaid labor resources will attract investment. Indeed, this is likely to be

essential as an increasing share of traditional goods production shifts to countries with low wages and as Canadians seek higher-value-added niches. Finally, there are equity considerations. A good education at least gives the individual a decent chance to compete on an equal footing for the better jobs.

How Is Canada Faring?

How well is Canada doing, then, in relation to education and training?

Education

With respect to education, there are a number of measures of Canada's investment in the education of its young people. One is public expenditure. Here, we find that Canada's spending on all levels of education, as a percentage of gross domestic product, is second highest among the industrialized countries (see Table 1).

Given these expenditures, what results are Canadians getting for their investment? Unfortunately, given the poor quality of the output indicators of Canada's educational system, it is not easy to form firm conclusions about its overall performance. Still, many of the available indicators are disturbing. In a recent statement, the Economic Council of Canada noted:

- Close to one-fifth of the adult population is functionally illiterate — that is, reading at or below the grade 9 level.
- A relatively high secondary school dropout rate — nearly 30 percent — coupled with a scarcity of apprenticeship and training programs means that more Canadian young people are falling outside the formal education and training system than is the case for the youth of many of Canada's competitors. For example, only 72 percent of Canadian 17-year-olds participate in a formal education or training program, compared with 87 percent of Americans and 94 percent of Japanese.

Table 1

Expenditures on Education in the Industrialized Countries, 1985

(kindergarten through grade 12, and higher education)

	Percent of GDP	Rank
Canada	6.8%	2
Australia	5.5	12
Austria	5.8	11
Belgium	6.1	7
Denmark	6.0	8
France[a]	5.9	10
Ireland[a]	6.0	8
Italy[b]	4.8	15
Japan	6.5	5
Netherlands[a]	6.8	2
Norway	6.3	6
Sweden	7.6	1
Switzerland	5.1	14
United Kingdom[a]	5.2	13
United States	6.8	2
West Germany	4.6	16
Non-U.S. average	*5.8*	

[a] 1984 data.

[b] 1983 data.

Sources: United Nations Educational, Scientific, and Cultural Organization, *Statistical Yearbook, 1988*; United States, Department of Education, National Center for Education Statistics, *Digest of Education Statistics, 1988*.

- Although Canada has a high postsecondary attendance rate, some studies suggest that one reason for this is a relatively less demanding postsecondary curriculum than that of many other countries.
- Canada has failed to rank above the middle level in several international comparisons of student achievement in mathematics and science.
- A disturbingly high proportion of those taking trade and vocational programs do not appear to benefit from their education.

Graduates experience high unemployment rates and low average earnings, and the majority report that they do not use the skills acquired in their studies.

- By some international standards, the quality of the high-skill segment of the Canadian work force is only mediocre. According to the 1989 World Competitiveness Scoreboard, Canada ranks only in the middle group with respect to managerial talent, research and development personnel, and skilled labor.[2]

As noted above, the output indicators are not good enough to allow firm conclusions to be drawn about the quality of Canada's educational systems. Still, it is not surprising, given the evidence that is available, that there is growing public concern in this area.

Training

Turning to Canada's performance on training, it is useful to distinguish between the training available to the unemployed and that provided for those who are working.

With respect to the unemployed, one broad approach is public expenditure on *active* labor market programs, such as counselling, training, and relocation assistance. In some western European countries — for example, Sweden and West Germany — spending on such programs is relatively generous, while in Canada somewhat less is spent (see Table 2). Indeed, a high proportion of Canadians who draw unemployment insurance (UI) are explicitly or effectively precluded from entering training courses while doing so. This appears to reflect the notion that people on training programs would be unable to devote the time and effort needed to find a new job.

With respect to enhancing the skills of employed people, in a typical year just over 30 percent of Canadian employees receive such training. Smaller firms provide training for a relatively low proportion

2 Economic Council of Canada, *Good Jobs, Bad Jobs: Employment in the Service Economy* (Ottawa: Supply and Services Canada, 1990).

Table 2

Public Expenditure on Labor Market Programs in Selected Countries, 1987

	As a percentage of GDP	Percentage devoted to "active" measures
Sweden	2.7%	70%
West Germany	2.3	43
United States	0.8	29
Japan	0.6	29
Canada	2.2	25

Source: Organisation for Economic Co-operation and Development, *Employment Outlook, 1988.*

of their employees; the larger ones do a better job in this regard. Again, however, Canada's record in this area appears to be lacking. Although the data are not entirely comparable, U.S. firms apparently provide twice as much training as do Canadian firms, and the Japanese perform even better.

In summary, it would appear that Canada's efforts in the area of industrial training are not up to those of its U.S. and Japanese competitors. Canada's efforts to use training as a vehicle for finding new jobs for the unemployed are also lacking compared with those of a number of western European countries.

Policy Options for the 1990s

Investment in human resource development is becoming relatively more important from the viewpoints of individual fairness and the overall performance of the Canadian economy. Yet, the evidence suggests that there is good reason to believe that Canada's achievements in both education and training leave much to be desired.

In the case of education, it is sufficient here to note that policy reform is very much on the agenda, both at the provincial level and

also through the prime minister's initiative to create a federal-provincial task force. For its part, the Economic Council of Canada has begun an empirical study with a view to evaluating concerns about the quality of education in this country.

The remainder of this chapter focuses on three of the more important policy training issues:

- the need for more comprehensive industrial training;
- human resource policies relating to older workers; and
- programs for the unemployed.

It should be noted that each of these issues has financial implications. Therefore, although views may vary about the seriousness of Canada's public finances — and the Economic Council is among those who are very concerned — it should be evident that, in tackling them, financial constraints will have to be a major consideration.

Industrial Training

There seems to be a widespread consensus that a key to future economic performance requires some process of life-long skills upgrading. This, in turn, raises a number of questions. The first is the extent to which society expects the individual to assume responsibility for such activity. Many people take evening courses, for example, to improve their general education or to add in some way or other to the skills they can offer in the job market. To the extent that these people seek to better themselves in a way that does not have a direct payoff for their employers, it is reasonable to accept that their employers ought not to be under any legal obligation to finance this kind of skills training. It is also arguable, however, that there are indirect payoffs for the employer, so that an enlightened management may well decide — in its own self-interest — to provide some support for such employee training; indeed, some employers do so.

There are also many types of educational and training activities that have a direct payoff for the employer. Here, the burning question in the current public debate is whether or not this kind of training

should be *mandated* by government. One view is that industry's apparent underinvestment in human capital is evidence that legislation is required to compel employers to provide their employees with training up to some designated standard. Such an approach would overcome one of the alleged impediments to a larger training investment by employers — namely, the fear that competitors will bid away their employees after they have benefited from the training.

In this mandatory approach, a variety of different "training triggers" are feasible. One that is frequently discussed is the "grant-and-levy" system, under which the federal government would impose a tax on employers exclusively earmarked for training purposes. To the extent that companies did sufficient training to meet some pre-established target level, they would secure refunds for that tax. This would create a substantial incentive for employers who are not doing sufficient training now to improve their efforts. At the same time, for those firms already exceeding the targeted level, there would be no net tax increase. The de Grandpré report, for one, recommended such an approach.[3] It is also one that the labor movement generally supports.

When the Economic Council of Canada evaluated this issue, it decided that, on balance, a number of conditions needed to be satisfied before it could recommend such an approach. They included: a simple administrative format; no incremental spending by governments, given the current fiscal situation; recognition of differences in training incentives needed for firms of different sizes and in different industries; access to training for all employees; a flexible definition of "training" that would extend beyond traditional notions of formal courses; and no additional costs for firms that were already meeting the agreed-on standards. The Council was unable, however, to work out a design that would meet these tests.

At the same time, the Council noted that there are interesting recent initiatives where employers and employees, working together,

3 See Canada, Advisory Council on Adjustment, *Adjusting to Win* (Ottawa: Supply and Services Canada, 1989).

have developed sectoral plans in industries lacking a strong training tradition at the firm level. The Council drew particular attention to the electrical products and automotive repair industries. In both cases, labor and management are involved in the design. The automotive-repair-industry case is particularly interesting, because it is dominated by many small firms and does not have a well-established formal organization to represent it on either the employer or the employee side. One would have thought that this is the kind of industry where a sectoral approach would be very hard to organize. Yet the available information suggests that it is moving ahead, and it shows some significant promise. An approach that is "bottom up", rather than "top down", the Council believes, has better prospects for adequately diagnosing the real problems in particular industries and market locations and in providing tailor-made responses.

While the desirability of more widespread industrial training commands broad support, there is controversy about how this should be achieved. Proponents of a universal tax have yet to satisfy critics that their approach can be designed to achieve the desired results without numerous inefficiencies. So far, however, volunteerism has not produced results commensurate with what Canada's foreign competitors are doing. The arguments are thus nicely balanced. For the time being, government can play an important role by encouraging industry sector plans — for example, through the federal government's Industrial Adjustment Service program, which has been instrumental in developing the plans now in place.

Older Workers

Evidence currently suggests that older workers are less likely to become unemployed than the rest of the labor force. If they do become unemployed, however, they are more likely to remain unemployed for longer periods. Moveover, the level of true unemployment for older workers is probably understated. Many workers in this age bracket become convinced of their inability to find a new job and they simply drop out of the labor force.

At present, the conventional approach is to compensate older workers for their loss of employment. This philosophy underlies the federal government's Program for Older Worker Adjustment (POWA), which provides a kind of cash settlement for permanently laid off older workers. The financial costs are high for such settlements, however, so that this compensation is limited to workers who lose their jobs as a result of large layoffs and only in areas where, in the judgment of the provincial and federal governments, there are few job alternatives. In other words, eligibility is somewhat subjective.

In considering this situation, it is important to remember the demographics. At present, 19.5 percent of the population is 45 to 64 years old. By the end of the century, that percentage will have risen to 22.5; 20 years from now, the figure is likely to be in the range of 25 percent. If attention is not focused on helping older workers to reintegrate, given these demographics, the economic cost to the Canadian economy will become progressively larger in terms of diminished output, and the financial costs of compensation for a program such as POWA will become even higher.

Although I do not doubt that the adjustment difficulties for older workers can be serious, I argue that Canada has no choice but to base its policies on *reintegration*, not compensation. The high demand for the Transitions program in Ontario — which provides vouchers to institutions or employers offering training to people aged 45 and over — suggests that this is one model that invites careful scrutiny. At the same time, the growing incentives to early retirement are undoubtedly giving the wrong signals to a workforce that is gradually becoming older.

The Unemployed

I noted above that a very high proportion of Canada's expenditures on unemployment insurance are devoted to income maintenance, rather than to such active labor market measures as training, counselling, and relocation. I also suggested that while a very high proportion of Canada's unemployed lack the skills or are in the wrong

location to fill current job vacancies, most Canadians who receive UI are precluded from participating in training programs, since the time spent on such courses will take away from the intensity of job search. Where the effort to find a job is largely irrelevant, however — for instance, because the individual does not have the skills that are called for to fill vacancies — it is difficult to see the reason for having UI rules that stop the unemployed person from training.

The UI program has provided that a small proportion of the unemployed can be put on training programs (Section 26 of the *Unemployment Insurance Act*). In the revisions now before Parliament (Bill C-21), the federal government proposes to widen somewhat the conditions under which UI recipients will be entitled to training. Without making any judgment on the range of issues raised by the bill, I believe that federal proposals to broaden access to training are a move in the right direction — although there is good reason to question aspects of the financing.

There are also grounds for going much further. In a recent statement, the Economic Council of Canada called for a change in the entire mindset that governs UI. It recommended a gradual shift away from the current program — which, for the most part, pays people not to work — to an employment enhancement or an employment insurance program. Under such an approach, training, counselling, and, where necessary, relocation support would be the norm, not the exception. Public policy would reflect the notion that people who lack marketable skills are simply underutilized resources, and that a failure to recognize this is a deadweight on the society. For society to invest in these people would be a self-interested decision to prepare for a world in which human capital will become progressively more important.

Conclusion

The world economy is changing rapidly. With it, the Canadian labor market is being transformed. In this transformation, there are some very worrying trends that have adverse implications for social and

economic objectives. In particular, the polarization of the job market and the persistence of high levels of structural unemployment need to be addressed, both for equity reasons for the individual and to improve Canada's overall macroeconomic performance.

A systematic and comprehensive upgrading of Canada's human resource policies and practices is an essential part of an effective response to this challenge. Not only must Canadians perform better than they do now, they must also acquire, and maintain, the habit of continually upgrading their human capital. Competition in the international marketplace will require nothing less if Canadians are to sustain and improve their living standards in the future.

11

Cultural Policy and the State

David McQueen

Should the state pay for culture? It already pays in a number of ways to make us more cultured. One of these ways is through the formal educational system — even Ontario community college students are compelled to absorb a certain dosage of literature and other liberal arts. Is the discussion really about whether or not we should pull Shakespeare, the Impressionist painters, and W.O. Mitchell out of the curricula and concentrate on technology? While we are at it, do we seriously want to consider asking Finance Minister Michael Wilson to pull the plug on all those tax expenditures for culture in the form of deductions for donations to the arts? We might, but I rather doubt it.

The *Shorter Oxford English Dictionary* defines culture as "the training and refinement of mind, tastes and manners; the condition of being thus trained and refined; the intellectual side of civilization." I like that definition, not least because it brings in mathematics and the pure sciences, but it is too broad to be dealt with here.

Another good definition — and one that, in some ways, is more manageable — is Matthew Arnold's: "The acquainting ourselves with the best that has been known and said in the world." This, we might note, implies a considerably broader perspective than the cultural-nationalist-versus-free-trader context in which so much discussion of Canadian culture and cultural policy goes forward. There are other

important issues here that all countries have to face, whether or not they possess the nontariff barrier of a unique national language.

Let me take a more pragmatic approach, however, by leaving out pure science and mathematics and concentrating on the literary, visual, and performing arts — including film, video, and broadcasting — with some reference to museums, art galleries, libraries, and other "heritage resources". I am also going to omit state support of the arts through the conventional educational system.

A Historical Perspective

Let us first look backward. By many standards, culture in Canada over the past couple of generations has been a major success story. This aspect of our lives has changed more than most others, in terms of quantity, quality, and its capacity to interest non-Canadians. Who would have dreamed that courses in Canadian literature would one day make their way into the curricula of Italian universities?

A few years ago, that remarkable Canadian renaissance man, the late Frank Scott — poet, law teacher, political thinker, battler for civil liberties — was speaking at York University's Glendon College. During the question period, a student asked him how much real difference his efforts and those of other, like-minded reformers had made. Had Canadian society really changed all that much over his lifetime? Scott looked up at the ceiling for perhaps 30 seconds. Then he said, approximately,

> The arts! That's what's changed the most. If you weren't around in the nineteen-twenties and thirties, you can't imagine the difficulty — how thin it was, how little real interest there was. It's so different today.

I, too, was beginning to observe some of this side of life in the 1930s — the late 1930s, anyway — and on into the 1940s, and I, too, can remember when live theater in this country largely amounted to bands of dedicated amateurs, the Dominion Drama Festival, and the odd touring Broadway or West End warhorse. Stratford was still a

railway shop town, and Niagara-on-the-Lake an all-but-unknown repository of splendid neoclassical architecture that the destructive hand of steam-age industrialism had somehow passed by.

In Winnipeg, where I grew up, the fate of the arts hung critically and disproportionately on the volunteer efforts of some better-educated wives and daughters of rich men, with especially vital support coming from the Jewish community — in that case, more from both sexes.

In those days, the arts played such a tiny role in Canadians' collective life that we did not even bother to count them properly — there are virtually no comprehensive statistics before 1971. Since then, the statistics, while still primitive, are eloquent enough. Between 1971 and 1986, employment in the "arts and culture sector" — defined very broadly — roughly doubled, while the total Canadian labor force increased by only 50 percent over the same period.

In 1981, direct spending in the arts and culture sector was around $5½ billion, or 1.6 percent of gross domestic product (GDP). By 1988, that was up to around $15 billion, or 2.5 percent of GDP. In fiscal year 1987/88, Canada's three levels of government spent about $4.9 billion, or 1.6 percent of their total expenditure, on arts and culture, exclusive of formal education.

What explains this eruption, which clearly got under way well before 1971? The bigger financial boost from the state? I am inclined to think that has been mostly a secondary cause — a necessary condition, to be sure, but not a sufficient one. Looking for prime causes, I would put more weight on increased income, education, and leisure, on immigration, on cheap world air travel, on global-village communications, and generally on the far greater exposure of Canadians to the life and culture of other countries. There is nothing like "abroad" to clarify in one's mind what is uniquely interesting and worth expressing about home.

Without all this, the political consent — the grudging tolerance — for so much more state involvement in the arts would never have been forthcoming. The same basic forces have been at work in the United States, whose cultural scene has also changed enormously

— although, of course, within a somewhat different funding pattern, featuring greater emphasis on voluntary donation. In that country, the state is less directly involved than in Canada, but it is more involved than it used to be. And the arts in the United States, as in Canada, have become noticeably more decentralized. A larger share of important theater, for example, is now occurring, not just off-Broadway, but off-New York.

Prospects: What Is It Worth?

Let us turn to the future. I doubt very much — tight money and fiscal deficits notwithstanding — that Canadians are simply going to turn around and march back to the way things were when I was a boy dragging myself to classical piano lessons while humming the tunes of George Gershwin and W.C. Handy. The basic causes I have mentioned will continue to operate and to drive us toward more absolute and relative expansion in this area — part of the broader services sector expansion, if you like. One of our problems, I think, is that we are still running what has become a decidedly larger and more complex operation on older, scattier, small-scale lines. We could use some clarification of objectives and improvements in means of attaining them.

Let me at once add, however, and most emphatically, that this will not be fixed up by bringing in a squad of high-powered MBAs and economists to modernize methods along standard consultants' lines. There are some very special problems here, notably of valuation. In 1890, Vincent van Gogh's "Irises" was displayed in a good position, in a good show, in a good Paris gallery. A few fellow artists admired it, but no buyers came forward; its market value was zero. In 1988, having miraculously survived this initial thumbs-down by contemporary popular taste, it sold at auction for US$53 million, and has since changed hands again for an even larger sum. What was the "correct" valuation? Perhaps none of these figures. The important lesson, though, is how this demonstrates where an arts policy guided entirely by contemporary popular taste —just relying on the market,

or reinforcing popular taste by distributing government funding on a nondiscretionary basis, in strict proportion to market revenue plus voluntary contributions — would be likely to lead.

Objects of art are profoundly paradoxical, not to say ironical. Some — those that are implicitly accepted into what André Malraux called the "Permanent Museum of Humanity" — are regarded by many people as among the greatest glories of the human race. A close look at how they came to be financed, however, would reveal a depressingly large amount of sleaze, cadging, deception, being paid for one thing and producing quite another, abject flattery of wealthy patrons, shameless playing to snobbery and fashion, and, above all, a consistent pattern of regressivity — of soaking the poor to entertain the rich.

Listen, for example, to any of the delicious music Haydn wrote while under the patronage of Prince Esterhazy. It was effectively financed by rent-paying peasants, most of whom never heard it. And while things have improved somewhat in this respect — at least the product is more widely *accessible* — they have not been revolutionized. The system remains regressive. One of the things I like about the Yeats poem reproduced on the opposite page is how it faces this fact head on.

What makes the arts such a thorny policy problem for governments — and, indeed, for all of us — is that the long-standing pattern of their creation, finance, and eventual value ranking virtually seems to laugh at most known philosophies of economics and democratic politics. How, in the end, do we judge value and worthiness in the arts? Above all, it is by the durability of the message, as with "Irises". If a work seems to have had something important to say to past generations, then it is likely to have something important to say to us, too. I may walk into a gallery and view a "hard" show that I do not like, and conclude that perhaps the curator is right and I am wrong — only time will tell. I may also be moved to reflect that if it ever turns out that we gave a leg up to an artist as good as David Milne, then the total finance of the gallery from Day One will have been justified.

Funding the Arts: One Poet's Prescription

To a wealthy man who promised a second subscription to the Dublin Municipal Gallery if it were proved the people wanted pictures

You gave, but will not give again
Until enough of Paudeen's pence
By Biddy's halfpennies have lain
To be "some sort of evidence",
Before you'll put your guineas down.
That things it were a pride to give
Are what the blind and ignorant town
Imagines best to make it thrive.
What cared Duke Ercole, that bid
His mummers to the market-place
What th'onion-sellers thought or did
So that his Plautus set the pace
For the Italian comedies?
And Guidobaldo, when he made
That grammar school of courtesies
Where wit and beauty learned their trade
Upon Urbino's windy hill,
Had sent no runners to and fro
That he might learn the shepherds' will.
And when they drove out Cosimo,
Indifferent how the rancour ran,
He gave the hours they had set free
To Michelozzo's latest plan
For the San Marco Library,
Whence turbulent Italy should draw
Delight in Art whose end is peace,
In logic and in natural law
By sucking at the dugs of Greece.

Your open hand but shows our loss,
For he knew better how to live.
Let Paudeens play at pitch and toss,
Look up in the sun's eye and give
What the exultant heart calls good
That some new day may breed the best
Because you gave, not what they would,
But the right twigs for an eagle's nest!

(W.B. Yeats, 1912)

Contrast that necessary faith in some ultimate big payoff on these very high risk, very long term investments, with modern economics and associated systems of budget management. These are profoundly a-historical — purporting to take account of cumulative processes, but in practice leaving them mostly to Japanese industrialists and Karl Marx. They declare every day to be a new day, enormously emphasize current market values, and heavily discount the future — especially at current Canadian real interest rates. They also take tastes as exogenously given, rather than as having developed over time through education, publicity, and, above all, product exposure.

To be fair, economics does throw up some useful general ideas about the arts, such as theories of merit goods and infant-industry protection. But any attempt to make these operational in a policy context — to work the arts into some common metric for making hard choices between them and other things — runs up against glaring exceptions and problems of severe analytical misfit. The plays of Shakespeare, for example — though not his sonnets — appear to have "made it" at the box office in his own day. Now, with apparent public approval, they carry on as partial state pensioners — an infant industry in reverse.

Political Problems

I do not think it helps to focus heavily on the regressivity aspect, and on that basis to rant on about elitism in the arts and culture as if that were the only policy problem in this area. Elitism, if that is what it must be called, seems to remain a built-in characteristic of much of the arts — so much so that no one has yet devised a formula for eliminating it in a way that would not close every opera and ballet house in Europe and otherwise eliminate a devastating proportion of that Permanent Museum of Humanity. Simply killing off elitism with philistinism hardly seems an acceptable solution.

If you happen to like Mozart, or Billie Holiday, or Robert Bateman — if you like them enough that you make a point of exposing

yourself to them often, with concentration and minimum distraction — you already belong to something that *could* be called an elite. If you walk or jog with a Walkman, chances are you are *some* sort of musical elitist. That is, you have a taste for something, and an intensity of interest and expertise in it, that is not shared by the bulk of the population. You are in a minority. What of it? What is there to feel guilty about? The human-rights passages of democratic constitutions do not stipulate uniformity of taste. Quite to the contrary, they are often specifically concerned to guarantee citizens the widest latitude to indulge their particular tastes, consistent only with not actively annoying others who do not share those tastes or cannot be persuaded to do so.

A large proportion — though not all — of what is called culture consists of an aggregation of minority enthusiasms, preserved by their partisans and handed down the generations to the delight and stimulation of yet new minorities who come to them afresh. If all the minorities could be wrenched from time and mortality and assembled in one place, they would, of course, in cases such as Mozart's, form a vast and politically very impressive crowd.

It is just this process of handing down from minority to minority, bridging the intervening "generation gaps", that imparts to culture much of its strength, continuity, and capacity for repeated self-renewal, as innovative artists find *somewhere* in the cultural storehouse of the past — maybe in rather dusty and relatively neglected parts of it — things vitally stimulating to their contemporary activities. New artistic creation is extraordinarily difficult and is rarely, if ever, accomplished without at least one or two particularly strong helping hands from beyond the grave.

Great culture, like great statesmanship, extends vertically through time — that is its longest dimension. By contrast, ordinary politics, economics, and bureaucracy — with their usually very high rates of time discount — are much more time horizontal. The all-time public for great culture — the actively appreciative beneficiaries of it — is many millions strong, but only a tiny fraction of it is available to vote in any one election or to buy tickets for any one performance.

That is one way of posing the problem of cultural policy in a democratic state.

Thus, as Yeats argues in the case of certain key Renaissance figures, some important part of what we today recognize as great, seminal culture would be unavailable to us had it not been for the willingness of a few people to see well beyond the prevailing taste and fashion of their time, to recognize quality and originality, and to support them. What these patrons of the past supplied that was just as important as their money was judgment. It was not perfect judgment, to be sure, but judgment sufficiently enhanced by the education of taste — an education typically acquired more by repeated exposure to the arts than by formal academic instruction — that they were able to save for us some of what we now value most.

Of course, the old style of patronage is long gone. But something that has not changed at all is the capacity of new culture often to surprise, to disconcert, to encounter initial popular indifference or even hostility. And because this has not changed, neither has the need for the discretionary side, the judgment side, of patronage — the need for people of outstandingly educated taste and judgment, and even more important, perhaps, the courage of their convictions, to say, "Wait a minute. There's more here than meets the eye (or ear). This could turn out to be something big. Let's put some government or foundation money on this and see what happens."

Policy Options

Where does all this leave us in terms of future policy options? Where it should leave us, I believe, is respectful of the special difficulties of this policy area, and skeptical of proposals for across-the-board, sweeping revisions of it.

Some, for example, would have us move more toward the U.S. pattern — that is, pull back on direct state funding, while perhaps sweetening the tax-expenditure incentives, and then hope that corporations, foundations, eccentric billionaires, and rich people generally would soon move in to fill the gaps both in funding and in

judgment. The state would still effectively provide a good many dollars, but the juries would be different. My own limited experience with fundraising in Canada suggests that the cuts would come much faster than the gaps would be filled. In the interim, arts organizations would blame the state for cuts, and the state would blame the arts organizations for flaccid marketing.

Another prescription, favored by some Canadian economists,[1] is to take a quasi-market approach and switch a good deal of government arts funding from the supply side to the demand side — as, for example, by subsidizing theater ticket purchases rather than theater companies. Following my earlier line of argument, I believe that a wholesale move in this direction would tie the system too much to current popular taste and so elide the "Irises" problem. I should also note a difficulty with consistency: if bureaucratic discretion is to be removed from the system, and state funding of the arts is to be turned into a market-popularity contest, why should rock concerts be left out?

Conclusion

Neither economics nor any other social science presently provides a satisfactory prescription and measurement of how much Canadians generally, and the state on their behalf, should be trying to achieve in the arts. That has to be decided on other, messier grounds. Moreover, it is likely to be decided better if some of the decision-making process passes through intermediary bodies such as the Canada Council and provincial arts councils, whose membership and staff, we must hope, will include people with the kind of training and expertise that improves foresight.

Once broad objectives are stipulated, then techniques of economic analysis can be usefully applied to achieving objectives more

1 See, for example, Steven Globerman, *Culture, Governments and Markets: Public Policy and the Culture Industries* (Vancouver: Fraser Institute, 1987); and Edwin G. West, *Subsidizing the Performing Arts* (Toronto: Ontario Economic Council, 1985).

efficiently. In television broadcasting, for example, there seems to me to be a scale-economy case *vis-à-vis* the United States for encouraging more Canadian content — up to, say, the population ratio of roughly 10 percent — in prime-time drama and comedy. But present methods of encouraging this seem extraordinarily ineffective, wasteful, and out of phase with the present-day, multichannel environment and its cable, satellite, and video-cassette technologies.

In particular, regulations that twist the private sector's arm to increase Canadian content seem to me a prolongation of proven futility. It gives rise to programs that people did not really want to produce, and to absurdly exaggerated expenditure of human resources on devising, then bending, complex CRTC content rules and licensing conditions in the hearing-rooms and lobbies of Ottawa. My own prescription to remedy this would involve far simpler licensing rules and fuller use of the public broadcasting sector.[2] Others will doubtless prefer alternative courses of action, but just staying where we are seems palpably inefficient in relation to apparent objectives.

If I have proven nothing else, it is that in a few pages one can barely scratch the surface of culture and cultural policy. Should the state pay? Yes, to a certain extent. But I have no simple formula for determining how great that extent should be — in effect, I throw the matter back to the voters. I do, however, advocate a continuing, significant role for state-appointed intermediate judgment bodies. Appointing such bodies is something the state is better set up to do than are others — provided it does so honestly, with a minimal representation of aging party stalwarts — and their practice of quality ranking seems to me to be one of the better bases for enforcing necessary budget constraint on the arts. If they overlap and duplicate each other to some degree, that can be a positive virtue, providing a second opinion in an area where judgment is so tricky.

---

2 See David McQueen, "Alternative Scenarios in Broadcasting," *Canadian Public Policy* 9 (March 1983): 129–134.

12 The Challenge for Universities

George Pedersen

The university system in Canada is in trouble — serious trouble. As a system, its graduates and its basic research are praised daily for their critical contribution to the future economic, social, and cultural welfare of this nation — heady stuff for those of us who work in universities. Heady, indeed, until one tries to determine how it will be possible to respond to the problems that lie ahead.

Canada's university system today is not competitive with counterpart systems in countries seen to be our international competitors. And the future appears even more bleak unless we decide to treat our universities seriously. Concern about access at the expense of quality, restricted fiscal resources in an enterprise that is largely government regulated, astoundingly modest investments in Canadian research and development, and potential critical shortages in the professorate are but four of the major challenges that Canadian universities face. Based on what has happened in the past decade, there is no reason to be optimistic that the situation will improve. One can only hope that this trend will turn around — and soon.

An inescapable fact, but one which Canadians are very slow to realize, is that the lack of a coordinated strategy for education affects Canada's economic standing in world markets, and will do so even more in the future. To quote former Ontario premier David Peterson:

> In many respects, Canada is the envy of the world. We have a high standard of living and we enjoy a strong network of social programs, of which accessibility to higher education is one.
>
> But we cannot take for granted that this situation will endure. If we are to continue to sustain our standard of living and social programs, we must develop a vision, clear objectives and a plan for building an internationally competitive economy. In doing so, we must mobilize all of our sectors in a national effort that involves everyone from our school rooms to our board rooms, from our playground to our union halls.

Politicians and corporate leaders, as well as national associations, provincial commissions, and nongovernmental bodies have recognized the crucial importance of Canada's universities for national development. So perhaps it would be useful to see how we reached the current state of crisis.

Historical Development

The history of the development of the Canadian university system has features that are a source of pride. Prior to World War II, Canadian universities were small, highly selective, and modest in their research emphasis. The total enrolment was about 35,000, the vast majority of whom were urban, upper-class males. In the 1987/88 education year, full-time undergraduate enrolment was 428,000, and for the first time women outnumbered men. In 1940, 40 doctorates were awarded; in 1987/88, this number had increased to 2,400. In the 15-year period from 1972/73 to 1987/88, full-time graduate enrolment grew 61 percent, from 36,000 to 58,000.

Today, Canada can boast the second most accessible university system in the world, with a participation rate of 4,210 persons per 100,000 population — only the United States has a higher rate, at 5,281 per 100,000 — and one that is supported largely by government funding. However, direct comparisons with the United States are difficult, given its large system of private universities. Canada's strength lies in undergraduate education, where, in the past decade

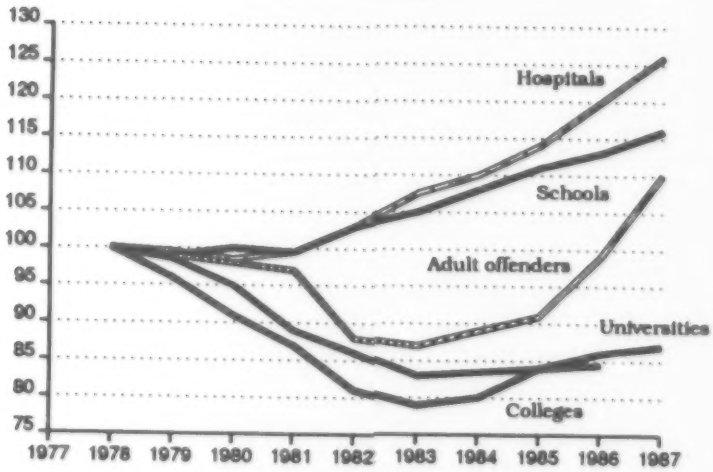
alone, enrolments have increased by approximately 30 percent. Graduate education is more uneven in its development, with only a few areas of international prominence.

Beginning with the provision of university places for World War II veterans, Canada was an active supporter of the "human capital" revolution that characterized the 1960s. Impressed with the need to invest heavily in people, governments spent freely on education, and the scramble was on to fill sorely needed professorial positions. But funding to support the operating budgets of Canada's universities has undergone an alarming reversal in the past 25 years.

By the late 1960s and early 1970s, the spending boom was reduced to a trickle. Universities found themselves in competition for government support with a number of other public sector institutions and programs. The most powerful competition came from health care and hospitals, but elementary and secondary schools and penitentiaries also fared dramatically better than did universities (see Figure 1). "More scholar for the dollar," was the cry in the early 1970s. This was changed in the 1980s to "do much more with much less," illustrated by an enrolment increase of over 30 percent in the past decade but accompanied by real dollar spending increases of only about 2 percent. In comparable dollar terms, the $4,716 per full-time equivalent student that universities received from government in 1987/88 was almost $800 less than they got in 1977/78. As a result, across-the-board budget cuts and operating deficits for universities have become embarrassingly routine in most parts of Canada.

Basic research, the *raison d'etre* of any university system, has evolved in Canada to the point where pockets of international importance do now exist. In international comparisons of scientific papers published in 1982, Canada led other industrialized countries with 483 publications per million population, compared with 465 for the United States and 174 for Japan. Another, more qualitative measure is the frequency of citation in scholarly journals. Here, U.S. scholars received 45 percent of this form of recognition in 1982, followed by those from the United Kingdom, Japan, West Germany,

Figure 1
Index of Expenditures per Client Served in Ontario, fiscal years 1977/78 to 1987/88
(1977/78 = 100)



Source: Council of Ontario Universities, *The Financial Position of Universities in Ontario, 1988* (Toronto, 1989).

and France. Canadians ranked sixth, with 5.3 percent of all scientific and technological citations. This is not a poor record, given the relative size of Canada's research force.

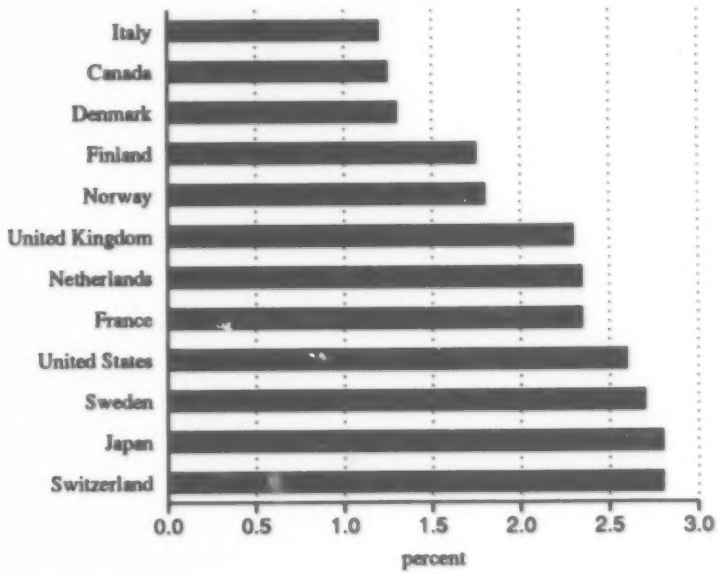
Funding for university research, after very modest support in the 1940s and 1950s, increased rapidly in the halcyon days of the 1960s. University research changed, both qualitatively as well as quantitatively; research in professional disciplines grew; and rapid advances in biology and its subdisciplines and in the behavioral sciences resulted in exceptional research advances in these fields.

Unfortunately, this initial burst of support was short lived, and the hoped-for national research effort stagnated. In 1987, for example, Canada spent only 1.4 percent of its gross domestic product on research and development (R&D). Compared with Japan, at 2.9 percent, and the United States, at 2.7 percent, Canada obviously is not

Figure 2

National Research Efforts in Selected Industrialized Countries, 1989

(ratio of total R&D expenditures to gross domestic product)



competitive in this area. While it may be unfair to compare Canada's efforts with those of economic and scientific superpowers, it is difficult to find comfort in the fact that we are a long way behind even such small countries as the Netherlands and Switzerland (see Figure 2). To go further, what is the rationale for spending at a rate less than half that of Sweden and significantly less than Norway? It is also cause for serious reflection that Canada produces R&D personnel — research scientists and engineers — at a rate only roughly that of Denmark, a small agricultural nation.

To summarize, Canada's record in university education is mixed. Given the limited resources that have been available, the degree of success is rather surprising. But there is little consolation to be had here. Postwar enthusiasm and extensive investment in universities was replaced in the 1970s and 1980s by disillusionment

and cynicism about the importance of university education and research. Today, this view has changed, and throughout most of Canada the university system is seen as critical to the nation's future well-being. Unfortunately, the priority needed to meet that expectation is not being accorded the university system. In fact, the very opposite is taking place in most parts of the country.

The Challenges

The challenges that Canadian universities face in the 1990s are multiple, and will not be easily solved. Their resolution will require tenacious good will, serious effort from a variety of constituencies, and the making of difficult choices. Inevitably, however, a large measure of Canada's future success will be determined by our collective abilities to rejuvenate the university system. To date, the present crisis in the universities has received little more than elegant rhetoric at best, and at worst there has been a blatant failure to acknowledge that the problem exists.

What, then, are the challenges that universities face? The first, and by far the most significant, is one that universities are understandably reluctant to acknowledge. Stated simply, *the university system must be restored to its former level of quality.* Canadian universities are not providing the same teaching quality today as they did 30 years ago. Greatly increased class sizes, limited opportunities for creative responses from students, out-dated laboratories, more instruction by graduate students and part-time instructors, greatly reduced provision for interaction with regular professors — in short, all measures resulting in more depersonalized education — exemplify the problems being experienced on most campuses. Coupled with this are deteriorating physical plants and other out-dated support facilities. The reinstatement of quality is, without question, the number one challenge to the system, and we must do everything in our power to see that this challenge is met.

A second challenge concerns *the need for curricular changes in the university system.* The astounding explosion of knowledge, the globalization of many economic, social, and political activities, new

multidisciplinary approaches to deal with complex problems, recognition of the arts and social sciences as essential aspects for solving present social problems, the increasingly complex nature of a multicultural Canada, and the legitimate demands for greater social equity — all speak to the need to re-examine university program offerings. "Business as usual" will be neither acceptable nor adequate to Canada's needs.

Closely associated with the need for curricular reform is a third challenge, which relates to *how services are provided, to whom, and at what ages.* Today, Canadian universities remain focused largely on full-time undergraduate and graduate education, with some involvement in part-time and distance education. Lifelong learning has been a catchphrase of the university lexicon for many years, but it has received only limited recognition. One of the consequences of this marginal response has been the active involvement of the private sector — and government as well — in initiating its own educational programs in a timely manner. Universities of the year 2000 will be expected to provide shorter-term programs for specific purposes to a wider variety of students, in many cases using novel modes of delivery. The need for upgrading will be of special importance to a growing number of professions, including medicine, engineering, and education.

A fourth and very critical challenge is *the need to get universities back on the public agenda.* The blunt truth is that powerful constituencies and fiscal demands — having priority in the minds of provincial and federal policymakers — have forced the university system off that agenda. Unless there is broad public support for postsecondary education, it is unlikely that politicians will provide additional assistance. The consequences of continued inadequate support must be made clear, to federal and provincial policymakers and to the public in general.

The news media obviously have a role to play in this. Journalists have a great deal of influence in determining the agenda for public debate. If universities have not been at the top of the list, it is partly because of attitudes and decisions in news rooms across the country.

The University of Western Ontario's Dean of Journalism, Peter Desbarats, has often been critical of his own profession and the industry for not devoting enough time and money to in-depth news coverage. The university story is one of those complex stories that require a lot of time and effort to understand. It may not be as dramatic as prison riots, and overcrowded lecture halls do not have the news value of overcrowded hospital wards, but I would suggest that the long-term negative impact of the situation of Canadian universities today is spectacular enough to be worth closer media attention.

A fifth challenge is one that, while not unique to postsecondary education, has to do with Canada's fundamental political structure: *Canada is the only western country that is unable to develop national policies in the field of education.* Canada's federal system of government, with paramountcy for education granted to the provinces, presents some unique difficulties for the educational system. Understandably, the federal government has been reluctant to play an active role in education, yet it has been clear for some time that a much greater degree of coordination between the federal and provincial governments will be necessary if Canada is to have the human resources it will need in future.

A sixth challenge is *to recognize the importance of research and the need to support it.* Again, this is an issue not restricted to universities. Given Canada's historical "cut it, or gut it, or dig it" type of resource-based economy, along with the limited research capacity of the multinational corporations located in this country, the failure to invest heavily in R&D is understandable. It is also regrettable that the inadequacy of support for the three major federal research-granting councils and the failure to provide support for overhead costs ensures that the full research potential of Canada's universities will go unrealized. In other words, it takes more than a dollar to support each dollar of research funding brought into the universities, and this infrastructure support currently is not available. Canadian universities cannot compete with the large number of "cutting-edge" research initiatives being undertaken by other western countries.

Furthermore, Canada increasingly risks the migration of its best scholars to countries where research is better supported.

Seventh on the list of challenges is *the lack of human resources.* It is now evident that Canadian universities — and their counterparts in other western countries — may be faced with serious shortages in the professorate beginning in the latter half of this decade and extending with greater severity into the new century. This problem will exist even if Canadian universities are able to draw on previously underrepresented groups — women, visible minorities, native people, and the handicapped. A serious challenge also exists to find more able students to enrol in graduate studies, particularly in the sciences and applied sciences. This is a concern at the undergraduate level as well; particularly troubling is the limited number of women who are currently entering the sciences.

The final challenge has to do with *ensuring that Canadians share their respective resources in pursuit of common national goals.* Too often, it is very difficult to cross territorial boundaries in this country. More specifically, federal and provincial levels of government, labor, education, and the private sector are each inclined to carry on their activities within their own particular domain. There is limited awareness of the need to share experiences and resources across these quite distinct spheres of influence. If Canada is serious about its desire to be an important competitor in the new global economy, it will require our best joint efforts and the willing sharing of resources that each sector possesses. One need only look to Japan to understand the importance of such cooperation and the results that Canadians might expect from it.

Facing the Challenges: Policy Options

As institutions, universities are charged with retaining Canada's academic heritage and enhancing understanding of the world in which we live. It is the latter that identifies universities as unique in the educational system and in the social milieu. As well, universities are expected to be constructive critics of society, to improve the

quality of national debate and to enhance the cultural lives of all Canadians. Given these traditional roles, and given that university personnel see their work as intrinsically "good", it is understandable that universities find the challenges that lie ahead somewhat overwhelming, since these challenges require universities to respond in ways that have never seriously been attempted.

Most Canadian universities are prepared to meet the most critical challenge — that of enhancing quality and excellence, given a reasonable set of conditions within which to do so. At present, provincial governments are disposed to give priority to the political appeal of access to universities, at the expense of quality. Closely associated with this policy direction is the strong desire to treat all universities identically, regardless of historical background or potential to acquire international status. Canadians' concern about fairness and equity for all students nudges us strongly in the direction of homogenization, thus ignoring the fact that outstanding national systems of universities have within them peaks and valleys. If we are not careful, Canada's university system will become one premised, not on a common denominator, but on the lowest common denominator.

If Canada's universities are to move toward world status, relief must be provided from excessive government regulation. At present, revenues are tightly controlled and declining. Whenever new financial support emerges, it is most often targeted for a specific purpose and does little to enhance overall quality. Greater flexibility is essential if universities are to be expected to help themselves.

It seems evident that the Canadian university system erred by becoming much too dependent on government. It is also obvious that new sources of revenue must be found for university teaching and research. A recent study completed by the Council of Ontario Universities reveals that, on a per-student basis, Ontario universities are required to provide services at a support level about 40 percent below that provided by U.S. public universities in adjacent states. Comparisons with other competing countries reveal a similar, unfortunate relationship. Quality education does cost money, but it

also provides high rates of return. As has been tritely stated so often, "If you think education is expensive, try the cost of ignorance." Canadians appear to have difficulty with this conventional wisdom, preferring to offer a threshold of adequate services but revealing no willingness to create institutions that are world leaders.

Additional support for universities from public coffers will only occur if the public demands it. Universities are presently being held hostage to the agendas of other parts of the public sector. If the economic malaise of the university sector is to be corrected, it will require serious advocacy campaigns initiated and supported by the universities themselves. Unfortunately, political support will not come about any other way.

Possible sources of revenue, other than from government, are limited. Student tuition fees, representing 17 percent of revenues, constitute the second most important factor of financial support for Canadian universities, but they are directly or indirectly regulated by provincial governments. Efforts to have tuition fees deregulated, at least in Ontario, have been strongly resisted by both government and student groups, the argument being that such fees have a negative impact on access. Given that there are no convincing data to support this perceived relationship and that safety nets are easily found, one can only conclude that provincial governments wish to avoid the political heat associated with increases in tuition fees.

Other sources of financial assistance — including individual donations, corporate gifts, alumni giving, foundation support, and help from parents of current students — are being explored in every manner possible by Canadian universities. Indeed, fundraising groups are probably the only administrative units in the universities that are expanding. Most institutions have a major capital campaign in the planning stages, in progress, or in the final stages. Demands on the corporate sector are such that many companies are extending the terms of their gifts from five to seven or even ten years, in effect diminishing the value of their contribution.

One option that has typically received little discussion or other attention in Canada is the development of private universities. While

the cost of starting a new private university has no doubt been a negative factor, it is more likely that the great Canadian homogenizing effect has played a greater role. Most older Canadian universities began as secular institutions with little or no government involvement other than a legislative charter. Today, almost without exception, every university in Canada is under close government control.

Assuming that provincial governments continue to grant low priority to the public university system, it could be argued that consideration should be given to allowing the development of some options. These could include the development of a private sector, either through the granting of charters to new institutions or by allowing interested existing publicly funded schools to enjoy much reduced government control. The private university experience in the United States, albeit part of a different cultural milieu, merits serious consideration by provincial policymakers. We cannot afford to stand idly by and allow the Canadian university system to deteriorate. Canadians must either support the present system or allow appropriate options.

The need to integrate the federal and provincial levels of government in the area of university education is also one of genuine importance. Unfortunately, the resolution of this issue belongs almost exclusively to politicians; the universities are only able to cheer any such efforts from the sidelines. The recent initiative to set up a Council of Ministers of Education is a commendable start. The appointment of a university president to represent the federal viewpoint in these negotiations is also encouraging. Process aside, however, it is essential that the legitimate concerns of the federal government in the field of university education be recognized. The continued balkanization of Canadian education will not serve this nation's needs well in the next century.

The projected serious shortage of professors for Canadian universities toward the end of this decade requires immediate consideration. Canada cannot afford to repeat the experience of the 1960s, when faculty had to be recruited from all over the world, particularly from the United States. Specific studies and programs targeted on

Canada's professorial needs should be undertaken as soon as possible, recognizing that we will be in direct competition with the United States and other countries where opportunities for scholars are often much more attractive. Many Canadian universities have already set targets for recruiting students, faculty, and staff. More specific initiatives remain to be undertaken, however, especially for women, visible minorities, native peoples, and the handicapped. Universities have a major responsibility to provide leadership by ensuring that such groups are appropriately represented within our institutions.

Programmatic changes, to reflect national and international demands, will require thoughtful commitments by Canadian universities. Given the North American proclivity toward isolation, Canadian universities have been only moderately involved in international education. This relationship must improve if Canada is to have available the qualified people needed in the global context. Programs ranging from foreign languages to cultural history to foreign business practices will have to be the new order of the day. If the universities fail to respond, the corporate sector will undertake more of the education of its own employees, too often duplicating the efforts of postsecondary institutions. One need only look at European universities and their role in Europe 1992 to understand that important changes are taking place in other parts of the world.

Lifelong learning must begin to take on a different level of meaning in Canada's universities. Long a part of the rhetoric of university curricular offerings, the programs provided have varied across institutions, both in magnitude and depth. Indications suggest that future Canadians will experience several career changes in their lifetimes, changes which will anticipate new types of formal education. Consequently, one can expect a variety of new curricular offerings, presented at nonconventional times, in off-campus settings, and using new formats for delivery. Canadian universities have already partially accepted this challenge, but a full response is now awaited.

The need for Canadian universities to cross territorial sector boundaries, whether government or private, is becoming more and

more evident. As noted earlier, it is by making greater use of one another's resources that we will be able to satisfy many of Canada's needs. Industry-university collaborations have increased in recent years, to some extent in response to government incentives. The interaction and resultant cooperation between major sectors has been a success, but this must now be enhanced. Canadian universities, having experienced a period of initial concern, can be counted on to support such initiatives.

Conclusion

Canadian universities, in a relatively short period of time, have made an important contribution to this country. The contribution expected and required of them in the future will be even greater. Yet, in spite of voluminous rhetoric about the important role of universities, post-secondary institutions have sunk to the bottom of the agenda of priorities in most parts of Canada. It will take a maximum effort from all concerned to restore universities to the level of importance they both merit and require.

The federal and provincial levels of government must renew their commitment to Canada's university system. This will require the approval of the general public, since additional government support can come only at the expense of other social programs, which will mean having to make difficult choices. Failure to provide more support, however, will result in Canada's reduced capacity to solve its economic and social problems in the future. The longer-term return on investing in Canada's universities must be seen to be of greater importance than programs that provide short-term political payoffs.

At the same time, university communities must become much more active in helping themselves. Among the things they can do are to gain critically needed public support, to seek ongoing financial support from sources other than government and students, to identify creative new ways to approach major capital campaigns, and to encourage additional research linkages with industry and govern-

ment. In order for universities to be able to assist themselves, however, they must be freed from the tightly regulated market in which they now operate. It is unfortunate that we in the university system have allowed our institutions to become so dependent on a single source of support.

It is not too late to come to the rescue of a Canadian university system that is still basically sound. Stated simply, it is imperative that we do so.

13 Science and Technology Policy

John S. MacDonald

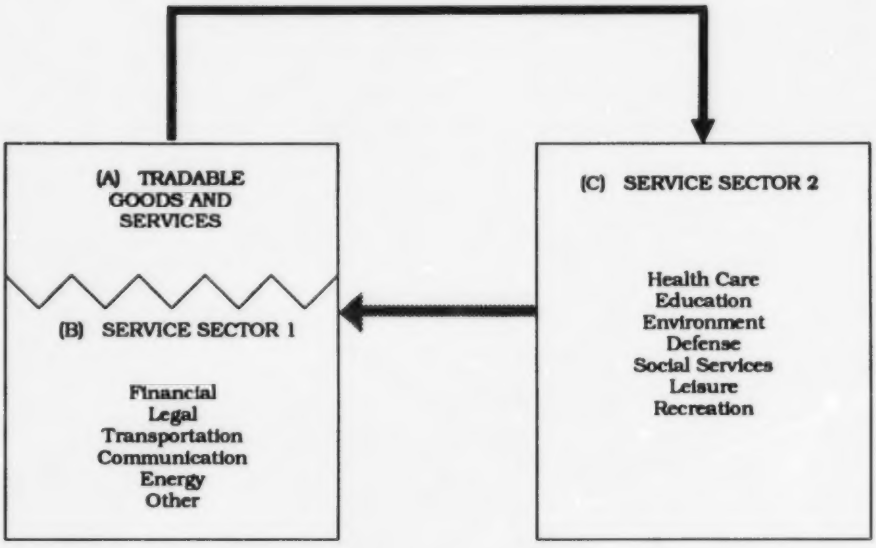
Canadians live in a period where changes in their economic and social fabric are among the most rapid that have occurred in human history. As a result of these changes, the world order of the next century will be fundamentally different than that which exists today. Prosperity — indeed, survival — in the coming era will depend critically on the ability to compete in the evolving global trading economy of today. And the ability to compete will depend on national scientific and technological capacity. In order to understand the technological imperative, however, it is essential to see the basic relationships among the three sectors of the modern economy, as set out in work by the Canadian Institute for Advanced Research: tradable goods and services, service sector 1, and service sector 2. These are shown in Figure 1.

The Three-Sector Economy

In a country such as Canada, with a small population and a large land area, the maintenance of a high standard of living requires very substantial volumes of trade in world markets to produce the necessary income. The engine that provides this income-generating function is the tradable goods and services sector (shown as sector A

Figure 1

The Three-Sector Economy



in Figure 1). It is the enterprises comprising this sector of the economy that are the major source of income serving to sustain Canadians' standard of living. To function effectively, such enterprises require the support of a high-quality service sector comprising such services as finance, legal, energy, construction, communications, transportation, and distribution ("service sector 1", shown as sector B in Figure 1). Taken together, these two sectors — the direct generators of the tradable goods and services and their supporting service sector 1 — constitute what I will call the "wealth-generating" sector of the economy.

Service sector 2 (sector C in Figure 1) is concerned with personal and social services and other activities that have a direct bearing on

the quality of life Canadians enjoy. These include such things as health care, education, the environment, defense, community services, leisure and recreational activities, and the "social safety net". It is the income generated by the wealth-generating sector that allows service sector 2 to expand. In turn, the activities of service sector 2 provide the support infrastructures and "quality of life" factors that support the wealth-generating sector. This is depicted by the shaded arrow in Figure 1. Canada's capacity to sustain and improve the services and opportunities represented by service sector 2 depends on the capacity of the wealth-generating sector to generate the necessary income. This is shown in the figure by the flow of money from the wealth-generating sectors of the economy to service sector 2.

There is increasing recognition that the sectors that produce tradable goods and services will not be the primary sources of increased employment in the future. Most industries in this sector are under intense competitive pressure to produce high-quality products and services efficiently. This leads to increased capital investment to enhance productivity, increased automation, and the employment of a small, highly skilled work force. At the same time, substantial growth in employment has occurred, and can continue to occur, in the area of personal and social services that have a major impact on the quality of life in the community. We have seen evidence of this in recent years in the form of statistics showing steady increases in the employment base in the service sectors. Thus, job growth in service sector 2 can only occur if a nation can sustain and enhance its income. In other words, job creation and quality of life in a modern industrial economy are dependent on the ability of that economy to generate tradable goods and services that can compete in a world marketplace. Only a wealthy nation can afford a clean environment. Only a wealthy nation can afford unemployment insurance and day care.

An understanding of this sectorial interdependence provides a framework within which to discuss the impact of advanced technology on Canada's international competitiveness.

Moving from a Resource-Based to a Knowledge-Based Economy

Over the 123 years of its existence as a sovereign nation, Canada has built a standard of living that is the envy of the world on what is commonly called a resource-based economy. This is an energy-intensive economy, where competitive advantage is gained through the reliable supply of high-quality raw materials at competitive prices. In a knowledge-based economy, on the other hand, competitive advantage is gained through the application of scientific and technical knowledge to the production of useful articles. A knowledge-based economy is an information-intensive economy and one in which developed countries such as Canada have a competitive advantage primarily due to their superior educational systems.

Such an economy is characterized by the fact that its main resource is knowledge. It depends for its prosperity on the knowledge base collectively possessed by the highly skilled technical people who populate its industrial infrastructure. One can think of this knowledge base as a resource in much the same way that one thinks of ore deposits in the mining industry. It is, however, a renewable resource. In fact, it is mandatory that the resource be continually replenished through research and development (R&D) and education if the economy is to remain competitive.

Canadians can no longer depend on the primary resource sector alone as the principal means of supporting the high standard of living to which they have become accustomed. There are many reasons for this new state of affairs, but principal among them is the fact that the less-developed countries are becoming competitive suppliers of resources at a time when the world demand for many of these items is on a downswing. A significant part of this reduction in demand is due to conservation by consumers of nonrenewable resources and the replacement of traditional commodities by new materials and new techniques born in the spectacular technological advances that have taken place over the past quarter century. The wry observation that fiber optics will make New York City the richest copper mine in the world is a caricature of reality with ominous overtones.

In order to meet these challenges, Canadians will have to take bold and decisive steps to change the way they do things, the way they think about themselves, and their role in the world. Canada's economy must develop a strong knowledge-based component as a means of diversifying so as to produce goods and services that are appropriate to the emerging trends in the world economy and this country's place in it. Another factor to be considered is that, with a strong high-technology sector, Canada would have the means to make its traditional resource industries more efficient and, therefore, more competitive. This would assure Canadians' economic well-being into the twenty-first century through the conversion of the economy into a form more in keeping with that of a developed society of the future.

Technological Capacity: Recipients and Donors

The competitiveness of a knowledge-based economy relies on the quality of the scientific and technological knowledge base that stands at its root. It is absolutely critical that a substantial part of this knowledge base be resident within the industrial infrastructure, and that it have strong links to the basic science that is developed primarily within the university system. For an industry's knowledge base to be of sufficient quality, however, requires that R&D be done within the industry. "Technology transfer" is an often-heard phrase these days, but it should be clearly understood that if transfer of know-how is to be effective, the technological capacity of the recipient must equal or exceed that of the donor. This is only possible if the recipient is engaged in its own R&D program. The idea that, somehow or other, one does not need to do R&D — that one can buy all knowledge elsewhere — is untenable.

For many years, observers have noted that Canada's ratio of R&D to its gross national product is among the lowest in the industrialized world. That is true, and there has been much pressure over the years on the federal government because of it. In recent

years, the government has been deflecting this criticism by pointing out that industry's performance in the R&D area has been even worse than that of the government. This is also true, but in order to understand the real picture, one must examine the situation more closely.

Let us begin with the government sector, and divide government spending on R&D into two parts: that which is spent within government, and that which is spent outside of government. What one finds is that in the parts spent within government, Canada is competitive with other developed countries. When it comes to spending money in the wealth-generating part of the economy and in the educational system, however, Canada is in the basement. The *distribution* of government spending on R&D is thus one of the problems — most of that money is not being spent in the wealth-producing sector of the economy.

The Two-Tiered Structural Problem

Now let us look at the industrial side, where there is a two-tiered structural problem. The first of these has to do with the fact that Canada's industrial economy is dominated by resource companies. Resource companies the world over tend not to perform a large amount of R&D as a percentage of their sales, and Canadian resource companies are no different.

The second structural problem has to do with the degree of foreign ownership in the manufacturing sector of Canadian industry. In general, Canadian-owned companies spend more, as a percentage of sales, on R&D than do foreign-owned companies. In some areas, Canadian-owned companies in Canada even spend more, as a percentage of sales, on R&D than do U.S.-owned companies in the United States. Yet only a small fraction of Canada's manufacturing sector is populated by Canadian-owned firms, so that the money these firms spend on R&D does not show up to any great extent in the overall statistics.

This reveals something that I believe to be fundamental: the control of R&D by those with a vested interest in Canada's future leads to an R&D performance level within this country that is competitive with world levels. In the branch-plant part of Canada's economy, however, those who control R&D spending have little or no vested interest in this country, nor should they be expected to. Canadian ownership is not a sacred cow, but it does more to guarantee actions that are consistent with Canada's objectives as a sovereign nation. Foreign-owned companies do not necessarily act in ways that go against Canada's interests, but there is certainly no guarantee that they will not do so. Canada's branch-plant economy is the product of over 50 years of government policy. It is a reflection of the attitude of Canadians. If we are to have a significant knowledge-based industry, then we have to be prepared to invest in it, and we have to have a set of policies that will provide Canadians with incentives to invest in Canadian enterprise, particularly knowledge-based enterprise.

Procurement as a Policy Instrument

Procurement is the best lever a government has to create industry, knowledge-based or otherwise. If it is to do so, however, government procurement must be carried out by methods that are compatible with the industry and that will allow the industry to become viable. While government procurement works in this way on occasion, at the federal level there is no solid policy to use purchasing power to develop industrial capability. Accordingly, its measures tend to be *ad hoc*. In fact, most of the large procurers within the federal government, such as the Department of National Defence and the Department of Transport, conduct their procurement in ways that, in general, do not lead to the development of significant Canadian industrial capability. Moreover, they almost never lead to a Canadian prime contracting capability, because in many cases the methodology that is used is incompatible with the size of the industry.

I do not mean to imply for one moment that the building of a strong, knowledge-based component within Canada's industrial economy is a panacea for this country's economic problems. It is not. This sector is, however, one in which high growth rates are possible, and one in which action taken at the supply end through technical innovation can, at least to some extent, mitigate the effects of reduced demand in the marketplace. While Canada lacks a strong knowledge-based sector in its industrial economy, it does have a sound educational system — one that is widely regarded as among the best in the world. The basic ingredients are there; all we need is the will to do the job.

This is not a new concept. The warning signs have been there for a long time. By and large, however, Canadians have ignored these warnings, and one has to wonder why. I believe the reason lies in our attitude. In general, Canadians do not think of themselves as being a competent source of advanced technology. Our national attitude seems to be that if something is sophisticated and technically advanced, it must come from somewhere else.

The facts indicate otherwise. From a technical point of view, Canada need take second place to no other country. Canadians' achievements in creating advanced technology over the past century speak for themselves. From the telephone to the Canadarm, Canadian science and engineering has been of the highest quality. Innovation, economy in the use of resources, and the performance and reliability of the final result are the measures by which the overall quality of such an endeavor are judged. By these criteria, it is my view that Canadian engineers and scientists have continually demonstrated themselves to be among the best in the world.

Toward a Science-and-Technology-Oriented Culture

The picture one gains from all this is that Canada has a superior ability to create advanced technology and to develop a world-class knowledge base, but a very weak — some would say nonexistent —

ability to convert that advantage into economic gain. I believe that at the root of this weakness is an attitude on the part of many Canadians that is still essentially colonial in spite of this country's outward trappings of sovereign nationhood. If one accepts the premise that Canada's survival and prosperity as a developed nation in the twenty-first century depend on the building of a strong knowledge-based component within its industrial economy, then Canadians have a daunting task before them.

To build such an economic structure will require a change of attitude on the part of Canadians as a whole about the role they play in the world economy and about their ability to compete in a game dominated by the exploitation of advanced technology and knowledge. In short, it will require the development of a culture oriented toward science and technology. The shaping of such a change in attitude in the population is essentially a political task. Without leadership at the political level, it will not happen. Canada's politicians must recognize, however, that this is a long-term process. Unless government pronouncements are followed up by real commitments, and unless processes and policies are put in place that truly transcend electoral mandates, Canadian science and technology will continue to flounder.

14 Financial Services and Government Intervention

William D. Coleman

Research on public policy in Canada and in other liberal democracies suggests caution when it comes to assessing government intervention. Determining whether state intervention is harmful or helpful is always contingent on many factors.

For example, government promotion of supply management in several agricultural sectors during the 1960s seemed, under the circumstances of the time, necessary for Canadian farmers. But its maintenance today in the more liberalized trade environment of the 1990s may be questionable. Without government involvement, and a lot of it, we probably would not have a high-technology sector specializing in space communications equipment that exports more than it imports. In a related high-technology sector — telecommunications equipment — little government intervention has been needed, and when intervention has occurred, it has often resulted in spectacular failures.[1] Would there be world-class petrochemical plants in Alberta today without concerted government intervention in the 1970s? Perhaps not. Yet it is also likely that Canada no longer

1 For a discussion of both the space satellite sector and the telecommunications equipment sector, see Michael Atkinson and William D. Coleman, *The State, Business and Industrial Change in Canada* (Toronto: University of Toronto Press, 1990), chap. 5.

needs extensive state support for petrochemicals development in the 1990s. In short, each situation bears close examination; sometimes government intervention is necessary, at other times it is irrelevant, and at still other times it is quite harmful.

It is also important to note that government involvement in society and the participation of citizens in public affairs is not a zero-sum game. More government involvement does not mean less citizen participation. Public policy research in Canada and elsewhere suggests that political life is not evolving in this direction. Rather, as government becomes more enmeshed in various aspects of social life, citizens and their representative groups have tended to become more active as well. In the past two decades, the number of interest groups representing all facets of social, cultural, and economic life has grown more rapidly than at any previous time in Canadian history.[2] There has also been a significant professionalization of interest groups, as these have become more institutionalized participants in public policymaking. There is every reason to expect that these trends will continue — that is, I maintain that there will be no secular trend away from government involvement in social and economic life and that the very nature of state intervention often brings a parallel professionalization of private sector policy expertise.

Financial Services: The Quintessential Globalizing Sector

One way to develop this argument is to examine financial services, a sector of the economy that is often viewed as an exemplar of the globalized future and one that would appear to be a hard case for proving the point.

---

2 For a discussion of business-interest associations in Canada, see W.D. Coleman, *Business and Politics: A Study of Collective Action* (Montreal: McGill-Queen's University Press, 1988), chap. 2. For the U.S. experience, see Jack L. Walker, "The Origins and Maintenance of Interest Groups in America," *American Political Science Review* 77 (1983).

At first blush, the idea of increased state intervention in the financial services sector seems counterintuitive. There is perhaps no sector of the economy that has become more liberalized, more global in its orientation, and less constrained by national borders than this one. Markets for euro-equities, euro-bonds and euro-commercial paper that are truly international have developed over the past 30 years; buying and selling securities takes place in a marketplace that operates simultaneously in major financial centers around the world. Even in domestic markets, trading is more frequently global, with larger companies being listed on exchanges in several countries.

In domestic markets, much of the traditional protectionism has broken down. Financial innovations have blurred the distinctions between traditional bank lending and dealing in securities. Large corporations have become much more sophisticated in their own treasury management, participating directly in money markets. Institutional investors, such as pension funds and life insurance companies, have also become more active and independent in international money and capital markets.

Beginning in the 1970s, as a consequence of these kinds of changes in both the international and national spheres, pressures for deregulation intensified. Traditional distinctions — in Canada, between banks, mortgage loan companies, and trust companies; in the United States, between banks and savings and loans; and in the United Kingdom, between clearing banks, building societies, and merchant banks — have become largely blurred, and regulators have gradually (very gradually in Canada outside Quebec and British Columbia) come to recognize this fact in law. Many of the traditional barriers to foreign firms in both commercial and investment banking have fallen in each of these countries. Even the primary money market jobber lists of central banks, long the preserve of favored domestic firms, have been opened up to foreign firms in the three countries. Regulatory barriers between banking and securities dealing fell in 1986 in the United Kingdom, in 1987 in Canada, and are now crumbling, legal piece by legal piece, in the United States. In Japan, too, they are expected to disappear by 1993.

In short, there is clear evidence of the withdrawal of the state from many aspects of financial market intervention. Many would be tempted to conclude that less government has produced economic progress, and has increased economic growth in financial services. Yet, while this true in some respects, such a conclusion ignores a related set of changes in the state.

The Emergence of the Expanded Regulatory Capacity of the State

The removal of barriers between institutions in domestic markets and between domestic and foreign firms, coupled with rapid advances in communications technology, has increased the stakes in any failure of a large financial firm. Time lines for recognizing and responding to a failure have shortened, and the possibility of spread effects across national lines has risen accordingly. In response, it is striking how, in Canada, the United States, and the United Kingdom, the state's capacity to supervise and regulate financial institutions has actually increased with market deregulation. Examples from each of the three countries illustrate these developments rather well.

Canada

Just 12 years ago, then Inspector General of Banks William Kennett — testifying before the House of Commons Finance Committee in relation to government proposals for a new *Bank Act* — related that his office had a staff of just 14: seven officers and seven support staff.[3] The Canada Deposit Insurance Corporation (CDIC) employed few persons and had no independent inspectors. The Department of Insurance, which regulated federal trust and loan companies, was also very small. Provincial regulators were tucked away in various

3 Canada, Parliament, House of Commons, Standing Committee on Finance, Trade and Economic Affairs, *Minutes of Proceedings and Evidence*, 4th Session, 30th Parliament, 27 April 1978.

places, usually in departments of consumer affairs. Provincial securities commissions were notoriously lean in their staff complement.

Since then, the regulatory capacity of Canadian governments has changed dramatically. At the federal level, the Inspector General of Banks and the Department of Insurance were combined into a new Office of the Superintendent of Financial Institutions that today employs over 200 people. The CDIC has expanded rapidly, developing its own risk analysis section, and now employs 60 persons.

At the provincial level, financial institutions in Quebec were placed under a new office — the Inspector General of Financial Institutions — in 1983; since 1985, they have had their own minister. Similarly, financial institutions in Ontario have moved gradually out of the Ministry of Consumer and Corporate Relations into their own ministry and now have their own minister. In 1989, the British Columbia government created a Superintendent of Financial Institutions with expanded responsibilities and powers. These changes at the provincial level have been accompanied by an increase in supervisory and policy analysis staff.

A similar story can be told on the securities regulation side. In an interview with a senior official responsible for the securities industry in British Columbia, the changes he saw summarized generally what I have found in my research:

> Prior to 1987, we were operating under an old act with a much smaller organization. B.C. really was not in the regulatory game in any effective way. I think this represented a huge change in 1987, when we got a new act which was essentially uniform with Ontario and the other major jurisdictions, and the government finally decided to throw some resources at the industry. Since then, our budget has doubled. Our staff has gone up about 80 percent, I guess. We have had additional amendments to the legislation to strengthen our enforcement powers and so on, to the extent where we are really in the lead in some areas.[4]

And this comes from an organization that supervises a stock exchange that still has a flavor of frontier capitalism!

4 Confidential interview, June 1989.

The United States

More surprisingly, a similar story is emerging from the United States. In a sense, the U.S. example is even more instructive about the need for caution before making the simple assertion that less government means that we are all better off.

The deregulatory spirit swept through the U.S. financial services sector in the early Reagan years, with many results. Most notable of these were changes in the rules governing the market behavior of savings and loans firms, changes that significantly opened up the areas of activity available to the thrifts. At the same time as market opportunities expanded, supervisory staff at the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation were cut back. After all, many at the time argued, it was not only the rules restricting market activity that were inhibiting growth, it was also those "useless bureaucrats" who were always on the backs of the firms themselves. On the basis of interviews I conducted in the United States in the fall of 1989 and the winter of 1990, the verdict on the sweep of deregulation was virtually unanimous. Financial institutions experts in the Treasury Department and the Office of Management and Budget, senior officials in the Bank Board — since renamed the Office of Thrift Supervision — even lobbyists representing the thrifts: all said that deregulating markets *and* reducing supervision was a disastrous mistake. The mistake appears to have been incredibly expensive, with the first appropriations for a rescue bid being in the area of US$100 billion.

Aside from the special case of the thrifts, the U.S. trend has been similar to that of Canada. The Federal Reserve System, the Federal Deposit Insurance Corporation (FDIC), the Comptroller of the Currency, and the National Credit Union Administration have all expanded their supervisory staff and policy expertise. At the start of the 1990s, the Treasury Department proper and the FDIC were much more powerful institutions than they had been a decade previous. On the securities side, the Securities and Exchange Commission (SEC) is stronger, not weaker, and the interface between the SEC and

the securities regulators at the state level has become more formalized and more professional.

The United Kingdom

Perhaps the most dramatic tale has unfolded in the United Kingdom. As late as the early 1970s, the British banking and securities system worked without formal regulatory statutes. No legal definition existed of what constituted a bank, and no law provided any agency with the power to regulate and supervise banking institutions. The same was largely true for securities dealing, where the only relevant act of significance was the *Companies Act*, which had been last amended in the 1950s. What supervision there was involved the use of moral suasion, "guidelines," and "requests," normally communicated with the legendary "raised eyebrow" of the Bank of England. The system relied on one virtually pure self-regulation and eschewed any systematic state involvement.

All this has changed. In 1970, responsibility for the supervision of over 300 British banks was in the hands of 15 people working in the Bank of England's Discount Office.[5] Three years later, a Banking Supervision Division was created. In 1979, the first *Banking Supervision Act* was passed, and banks had to apply for a license for the first time. A second *Banking Supervision Act*, passed in 1987, increased significantly the Bank of England's supervisory and regulatory powers, and created a Board of Banking Supervision to watch over the Bank and ensure it was doing its job.

The story on the securities side is similar, but no less dramatic. The *Financial Services Act*, first passed in 1986, tried to meld the old traditions of practitioner-based self-regulation with a greater oversight role by the state. In the process, the United Kingdom has seen a wholesale revamping of the London Stock Exchange, the creation of a semi-public supervisory body — the Securities and Investment

5 Michael Moran, *The Politics of Banking: The Strange Case of Competition and Credit Control*, 2nd ed. (London: Macmillan, 1986), p. 86.

Board — and the introduction of five self-regulatory organizations that oversee everyone from the largest securities houses to the smallest independent investment manager or counsellor.

International Changes

In addition to these changes at the domestic level, market deregulation and internationalization have encouraged the development of more formal cooperative links among national regulators. For example, close observers of financial services policy in Canada will have noted that the new, risk-based capital adequacy requirements for chartered banks introduced in 1988 originated in the Committee on Banking Supervision associated with the monthly meetings of the Group-of-Ten central bank governors at the Bank for International Settlements in Basle, Switzerland.[6] This committee of national banking regulators has become an important forum for policy development, and promises to continue in this role in the future.

Similarly, in the European Community proper, the first and second banking directives indicate that the Community has become an important corporate actor in its own right in the area of financial institutions policy. Finally, the past several years have seen the increased prominence of the International Organization of Securities Commissions (IOSCO), whose secretary general is Paul Guy, the former chairperson of the Quebec Securities Commission. IOSCO's Technical Committee is emerging as an important forum for harmonizing national capital adequacy regimes for securities firms and for discussions on international policy coordination. If anything, these supranational organizations add to the strength of national state agencies within their respective domestic situations. In short, in the area of financial services, the state's supervisory capacity has expanded *in tandem with* significant market deregulation.

---

6 For a discussion, see Ethan B. Kapstein, "Resolving the Regulator's Dilemma: International Coordination of Banking Regulations," *International Organization* 43 (1989).

Expanded Interest-Group Professionalism

In their wake, these changes have brought the private sector's increased professional involvement in policy implementation. Two examples from the financial services sector will suffice to illustrate this trend, although it should be noted that it is not confined to this particular sector.

Historically, financial services firms have sought a governance regime based on self-regulation, rather than on state regulation. The result is that organizations — such as stock exchanges — that are owned and controlled by their members have assumed important regulatory responsibilities. One might have expected that, as the state has increased its authority and power, private self-regulatory organizations gradually would have withered away. In fact, the opposite has been the case. Over the past 20 years, stock exchanges have assumed — both more formally and more professionally — responsibilities for registration, investigation, compliance, and discipline based on explicit delegations of authority from the state.

The same can be said for associations responsible for the fixed-income side of the markets, such as the Investment Dealers Association (IDA) in Canada[7] and the National Association of Securities Dealers and the Public Securities Association in the United States. The United Kingdom also has several of these self-regulatory organizations, the most prominent being the Securities Association. Twenty years ago, the IDA in Canada did not have a permanent president and employed about 20 persons. Today, it has a permanent president, employs about 100 persons, and is specifically delegated legislative authority in the securities statutes of all provinces except Quebec. These organizations are what political scientists call "private-interest governments," and it is interesting to note that their importance in securities regulation has expanded in tandem with that of the state.

---

7 This example is discussed at some length in W.D. Coleman, "Self-Regulation in the Securities Industry: A Case Study of the Investment Dealers Association of Canada," *Canadian Public Administration* 32 (1989).

Similar observations emerge from an analysis of trade associations in the sector. Fifteen years ago, the Canadian Bankers' Association had a part-time president and questioned its preparedness for policy discussion after experiencing some difficulty in the run-up to the 1980 *Bank Act*. Since 1980, it has retained a full-time president and has expanded its operations to the point where it employs close to 100 persons. It has also refined an effective committee system that taps very well the expertise resident in its members, the chartered banks. Accordingly, it acts not only as a lobby in the traditional, pressure-group sense, but also as an important substantive contributor to policy debates.

A similar story can be told about the British Bankers Association. In 1972, it was quite literally a shell organization — existing only on paper. It was then promoted and given a new life by the Bank of England, which was looking for an interlocutor on policy matters representing the banking industry. The association has since expanded considerably, and is now playing an important role not only in the development of banking regulatory policy in the United Kingdom itself, but also in the European sphere, where it cooperates closely with the Bank of England and HM Treasury.

The U.S. groups are more complex. Suffice it to say that, in the past 15 years, several trade associations have developed extensive expertise in particular aspects of banking policy. These include the Association of Reserve City Bankers (for payment systems), the Bankers Association for Foreign Trade (for international banking), and the Consumer Bankers Association (for retail banking).

Again, the evidence suggests that more government does not necessarily mean less private sector input or influence. In a sense, in the financial services sector at least, an expansion in state involvement has increased reciprocity and interdependence between the public and private spheres when it comes to policymaking.

Conclusions

As the world becomes more interdependent, more impersonal, and faster paced, governance — generally speaking — becomes more

problematic. Older governance systems, which relied on informal relationships between private and public actors, personal friendships, small groups of relatively insulated elites, and moral suasion, can no longer procure the public goods that citizens desire.

Internationalization has added to the responsibilities of national governments. They seek rational, internationally connected, bureaucratic governance systems with definite incentives and disincentives to respond to demands for such public goods as consumer protection, environmental quality, and the reliable delivery of services.

Accordingly, addressing the question of the desirability of government intervention involves recognizing, first, that no answer can be expected to remain the same indefinitely and, second, that — as the example of the U.S. thrifts suggests — ideology should not be allowed to override pragmatic instincts. Thus, restrictions on government in one area should not be imposed without considering their impact on the delivery of goods in related policy areas.

References

Atkinson, Michael, and William D. Coleman. *The State, Business and Industrial Change in Canada.* Toronto: University of Toronto Press, 1990.

Coleman, William D. *Business and Politics: A Study of Collective Action.* Montreal: McGill-Queen's University Press, 1988.

———. "Self-Regulation in the Securities Industry: A Case Study of the Investment Dealers Association of Canada," *Canadian Public Administration* 32 (1989).

Kapstein, Ethan B. "Resolving the Regulator's Dilemma: International Coordination of Banking Regulations," *International Organization* 43 (1989).

Moran, Michael. *The Politics of Banking: The Strange Case of Competition and Credit Control,* 2nd ed. London: Macmillan, 1986.

Walker, Jack L. "The Origins and Maintenance of Interest Groups in America," *American Political Science Review* 77 (1983).

15 Environmental Policy in the 1990s

Robert Paehlke

In the new, environmentally sensitive political economy of the 1990s, it is essential to have three distinct bottom lines: (1) the short-term bottom line at the level of the firm, (2) the societally based long-term bottom line, and (3) the environmental bottom line.[1] Increasingly, all three may condition business decisions and governmental choices, as well as the behavior of consumers, labor, and investors. Government has traditionally sought to reconcile the first two — indeed, they coincide frequently. It is not so apparent who determines the environmental bottom line, and it is a complex matter to reconcile it with the other two. New institutions and decisionmaking processes will undoubtedly be necessary to meld all three bottom lines.

The central thesis of this chapter is that the goals of environmental policy planners ought now to be twofold:

- to permit environmental values and longer-term economic values to replace environmentally costly decisions as soon as possible and as often as possible; and
- to do so using only a modest number of interventions, preferably either very early or very late in the production process.

1 See R. Paehlke, *Environmentalism and the Future of Progressive Politics* (New Haven, Conn.: Yale University Press, 1989).

The Greening of Markets

Consumers are changing their behavior. They are environmentally informed and, when opportunities exist, they take the environment into consideration when making — or choosing not to make — purchases. The cost of producing goods is also increasingly affected by environmental considerations. For example, society now values old-growth forests highly, and more as habitat than as a forest resource. In addition, waste-disposal costs are escalating rapidly, energy costs are often unpredictable, and environmental impact assessments and permits have become of way of life in many sectors. Thus, markets and governments are influenced by environmental concerns, and both organized and unorganized environmental interests are involved in many ways in the reconciliation of the three bottom lines. Indeed, organized environmental groups now play a role within all of Canada's social, political, economic, educational, religious, and labor organizations.[2]

These changes, however, do not always find their way into market decisions in a sufficiently timely and efficient manner. This is unfortunate, because the nations and firms that transform themselves most rapidly may have significant long-term economic advantages. Even if overall economic growth is slow, some firms and nations will gain ground within the coming period of transformation. The global future will almost certainly be marked by restraints on energy, water, land, and forests — and, thereby, on many other raw materials. Processes that use and reuse materials efficiently, and products and services with low direct and indirect energy content per unit of value added, will be at the center of the economy of the future.[3]

---

2 See R. Paehlke, "Linking Global Environmental Problems and Local Sustainable Development Initiatives" (Paper presented at a conference, "The Environment: Global Problems — Local Solutions," Hofstra University, Hempstead, N.Y., June 1990).

3 See P. Hawken, *The Next Economy* (New York: Ballantine, 1983).

The contemporary challenge is to find ways to harness the power of market forces to achieve an early — that is, a timely — transformation to an environmentally sound future. One way to achieve this goal is to institute a limited number of market interventions either early or late in the production process. Concrete examples here include a tax on energy supply — or, as is currently urged, on the sulphur or carbon content of fuels — and/or a charge on materials disposal through, for example, increased tipping fees.

Moving to a Nonregulatory Approach

These are examples of what one might call a "nonregulatory" approach to environmental protection,[4] which can be sharply distinguished from a "deregulatory" approach. Regulation, in this view, is seen as a necessary, but not a sufficient, means of achieving adequate environmental protection. Regulation has as its objective the protection of human health or environmental well-being from some specific burden; nonregulatory approaches may seek a much broader goal, such as the transformation to a sustainable economy. It might also be argued that regulation is too coercive, or too expensive, or too legalistically or administratively oriented to be the sole or even the principal tool for the tasks at hand. Tools that are more market oriented might well serve as important supplements to a regulatory regime, especially in cases where human health or vital ecosystems are not immediately and severely affected. One might also distinguish between "new" and "old" economic tools. Selling pollution permits — theoretically an "old" economic approach — may be more problematic than applying pollution taxes or environmental user fees.

But the concern here is not to reject tools that may be useful in some cases, but rather to argue for an all-tools, all-sectors, all-levels approach to environmental protection. Diversity and selectivity in

4 See R. Paehlke, "Regulatory and Non-Regulatory Approaches to Environmental Protection," *Canadian Public Administration* 33 (Spring 1990).

the choice of instruments will be critical to overall success. An all-sectors approach would see the active involvement of small businesses and large corporations, educational and health institutions, labor unions, consumers, and all economic sectors in the more usual sense — from transportation to resource extraction to food production (from agriculture to supermarket). All levels of government would also have a significant role to play. Waste disposal and many vital land-use matters are primarily in municipal hands, the provinces and the federal government are clearly central, and, increasingly, environmental issues are being perceived as global in nature and high on the diplomatic agenda.

The Inventory of Policy Tools

Governments have a wide array of tools that can be — and in many cases have been — used to implement desired policies They include: nationalization, criminal law, enhanced public control of publically owned enterprises, regulation, taxes, user fees, subsidies and tax expenditures, subsidy removal, procurement, suasion and participation, privatization, (economic) deregulation, and deficit reduction.

These tools are often seen as a continuum of actions proceeding from those that are relatively coercive and interventionist to those that are relatively noninterventionist. One hastens to add, however, that the position of any particular tool on the continuum depends very much on the ideological and/or economic perspective of the observer. One's view of subsidy removal, for example, depends on whether or not one's firm or sector receives such subsidies. It also depends on the manner in which the tool is applied — suasion can be highly coercive if, for example, it is conducted in the public eye by a leading political figure with strong public support on the issue at hand.

Nonetheless, it has been asserted that regulation has too often been the tool of choice in environmental matters. I would prefer to say, however, that governments have been too exclusively dependant on this single tool and that, as argued above, there are many possible

nonregulatory solutions to environmental problems. I would also argue that the most promising avenues to explore are "middle-range" and "low-coercion" tools, such as taxes, user fees, subsidies, subsidy removal, government procurement, and suasion/participation.

Carbon Taxes

Carbon taxes and/or sulphur-content fuel taxes have been widely touted of late.[5] The principal difficulty here is that each of these deals with only a single environmental problem. Sulphur-content taxes, for example, provide indirect subsidy advantages to environmentally problematic energy sources — such as nuclear power, offshore exploration in the high Arctic, or the further development of hydroelectric power in the James Bay region. But taxes that purport to resolve environmental problems in all their multiplicity can become extremely complex. Better, one might argue, to see all throughputs of energy, and perhaps all virgin materials, as potentially problematic, and set an across-the-board tax on nonrecycled materials and energy, with some emphasis on energy. Shifting the overall tax mix toward energy and materials would have a wide range of potentially positive environmental effects.[6] Recycling, energy efficiency, and waste reduction — through the power of market forces — would be promoted throughout the economy.

Such a tax involves one governmental economic intervention with effects early in the productive process. It does not create the same multiplicity of legalistic, bureaucratic, and economic interventions that are implicit in regulatory regimes. Energy and materials taxes are obviously not a panacea, but they might have a wide variety of positive environmental effects.

---

5 See, for example, Greenprint for Canada Committee, *Greenprint for Canada* (Ottawa, 1990); and J.L. Regens and R.W. Roycroft, *The Acid Rain Controversy* (Pittsburgh: University of Pittsburgh Press, 1988).

6 See T. Page, *Conservation and Economic Efficiency* (Baltimore: Resources for the Future; Johns Hopkins University Press, 1977).

User Fees

Those effects could also be fine-tuned with selective user fees, which push charges through to those who can actually effect necessary change. For example, consider several possible approaches to waste reduction. Increased tipping fees may encourage waste reduction quite directly in the industrial and commercial sectors. In private residences, however, fees are not automatically passed through in terms of the amount of waste each household generates. While one can hardly expect the garbageman to weigh each household's weekly output, easier techniques are being tried. One town in New Jersey, for example, has experimented with selling tags for garbage bags or cans at $1.00 each. No tag, no pick-up. Seattle's system is even more subtle: only city-provided containers are permitted, and varying sizes and quantities are available at varying levels of monthly pick-up charge per purchased container. Separated recyclables, however, are picked up at no charge.

In these approaches the incentives are clear and the system is administratively simple. User fees work best to the extent that they precisely promote desired change. Some other possible environmental user fees would include metered water, "inverted" electricity charges (higher charges per unit for greater use), time-of-day electricity charges, or even time-of-day tolls on freeways. Leveled demand can have very important positive environmental effects.

Subsidies

Subsidies are commonplace in the Canadian political economy, in the form of both direct spending and tax expenditures, but subsidy patterns are often wrong-headed from an environmental perspective. Energy supply, for example, is more likely to be subsidized than is general manufacturing. Primary goods extraction is more extensively subsidized than is the services sector, and transportation more than the average for the economy as a whole. Fortunately, some particularly doubtful subsidy practices are now being amended. For a time,

agricultural landowners could be subsidized both for removing and for restoring wetlands. One hardly need grow anything in such a situation — one could remove one year and restore the next.

Particularly doubtful from an environmental perspective, of course, are subsidies to energy megaprojects. Particularly desirable — if any subsidies are to exist — are subsidies to energy efficiency improvements. These latter improvements are labor intensive and can improve the economy's overall international competitive position considerably, at least under certain assumptions regarding future energy prices.

Procurement

Governmental procurement also has great potential as an environmental policy tool.[7] Governments — especially, perhaps, those at the local level — can involve other public or quasi-public institutions, such as school boards, hospitals, and local utilities, in cooperative buying ventures. Products that might be purchased include recycled paper products, phosphate-free detergents, downsized and more fuel-efficient vehicles, environmentally benign cleaning products, recycled motor oil, recycled gravel (from construction and demolition wastes), and super-efficient lighting fixtures.

Consistent suppliers of all products to government might also be asked to demonstrate — perhaps through an environmental audit — the quality of their overall environmental performance. This could be done even where environmental product specifications were not feasible or appropriate. Markets for the variety of possible recycled paper products, for example, are as essential as the household and commercial sorting and collection of paper products of various grades.

---

7 See R. Paehlke, "Toward a New Environmental Protection Strategy: A Survey of Options with Emphasis on Governmental Procurement," *Business in the Contemporary World* (Summer 1990).

Suasion and Participation

Finally, there is the increased use of moral suasion and participation. Recent Canadian initiatives regarding sustainable development — including federal, provincial, and municipal roundtables — may signal a significantly expanded use of this tool in the future. Environmentalists, government officials, and business leaders now deal with each other in direct personal terms, and they find that sometimes their viewpoints coincide or can be brought together. The variety of participatory approaches work best, however, when information is available to all who need it. This is vital, particularly when workplace situations are in question. In this regard, it should be noted that there is now a danger that the important information base provided by the Canadian Centre for Occupational Health and Safety will be lost, or access to it weakened, through budgetary restraints. Such data — regarding hazardous chemicals that pose potential environmental as well as occupational risks — are essential to the future effectiveness of participatory approaches.[8]

Conclusions

The discussion of the three bottom lines and nonregulatory policy tools ultimately begs the question: Does "more" environment mean "less" economy? While I remain genuinely uncertain as to the answer, I am sure that economic growth must be optimized in the long term, rather than maximized in the short term. As well, this optimization will be conditioned by environmental limits, even when we are not scientifically certain about the precise character of specific limits.

The most successful economies will be those that best anticipate future limits. However, modest net growth within an era of process and product transformation may well be possible. Environmental protection is essential, but economies are as highly adaptable as are

---

8 See Paehlke, "Regulatory and Non-Regulatory Approaches to Environmental Protection."

human wants and needs. Neither quality lives nor successful economies need be energy intensive. Quality products of great variety need not necessarily involve great volumes of once-used materials. And services and information are, in any case, becoming the principle "commodity" in advanced economies. How, then, will the future economy be different? It may well be significantly and increasingly conditioned by environmental factors. In such a future, three kinds of sectors need to be differentiated.

First, there are those in which growth is necessary and/or desirable from an environmental perspective. This would include: the manufacture, installation, and operation of pollution-abatement equipment; secondary materials handling; advances in energy efficiency; more reusable and repairable products; "green" products; the arts, education, health, and human services; the production of food and fiber within ecosystemic approaches; and energy-efficient public transportation systems.

A second category would entail those existing growth sectors that would be affected only modestly by environmental considerations, such as electronics, biotechnology, capital goods generally, and the energy sector as a whole — including the enhancement of energy efficiency.

Finally, some economic sectors would likely face limited growth possibilities and general restraint. These include: raw materials extraction and processing generally, packaging, automobiles and related industries, disposable products, and perhaps airlines — although improvements in fuel efficiency may make modest growth possible here, even in the face of rising energy prices.

These are but examples. In effect, what Canada must do is bet on a global economic future oriented to sustainability and environmental protection. Even if other people choose in the short run to behave otherwise, Canadians should not. Our environment is worth protecting; and sooner or later, other nations will have to become more environmentally sensitive, either at the behest of their peers or in the face of nature's hard lessons.

References

Greenprint for Canada Committee. *Greenprint for Canada*. Ottawa, 1990.

Hawken, P. *The Next Economy*. New York: Ballantine, 1983.

Paehlke, R. *Environmentalism and the Future of Progressive Politics*. New Haven, Conn.: Yale University Press, 1989.

———. "Linking Global Environmental Problems and Local Sustainable Development Initiatives." Paper presented at a conference, "The Environment: Global Problems — Local Solutions," Hofstra University, Hempstead, N.Y., June 1990.

———. "Regulatory and Non-Regulatory Approaches to Environmental Protection," *Canadian Public Administration* 33 (Spring 1990).

———. "Toward a New Environmental Protection Strategy: A Survey of Options with Emphasis on Governmental Procurement," *Business in the Contemporary World* (Summer 1990).

Page, T. *Conservation and Economic Efficiency*. Baltimore: Resources for the Future; Johns Hopkins University Press, 1977.

Regens, J.L., and R.W. Roycroft. *The Acid Rain Controversy*. Pittsburgh: University of Pittsburgh Press, 1988.

16 Health Care: Is the System Sick?

Robert Evans

In every developed society, the health-care system is a huge social and economic enterprise. It makes up, roughly, between one-twelfth and one-eighth of the entire economy, depending on the country. The interesting thing is that all this activity is justified by and, I think, carried on because most of those people who provide medical services genuinely believe, most of the time, that they are going to have an impact on somebody's health.

Long ago, Osler Peterson at the Harvard School of Public Health, speaking as a physician, told me that "health is a state of incomplete diagnosis." Now, there are at least three messages in that definition. The first is the expansibility or the flexibility of the concept of need. If you set out to build a system to meet all needs, you will never get to the end of the process. There is always the possibility of redefining the human condition in such a way to find new needs. It was for reasons similar to this that René Dubos entitled one of his books "Mirage of Health" — the concept recedes as you try to approach it.

Some economists, with their usual lack of insight, have concluded from this that the concept of need is therefore meaningless. These are generally male economists in their early twenties. After they get into their fifties and have their first incidents of chest pain, they do not have nearly as much difficulty understanding that "need" really is a substantive issue.

The point is that, while it does indeed make sense to talk about the need for health care — and this is quite different from the need for a chocolate bar or a preference for one car over another — the expansibility of need means that no system designed solely to meet need has within itself a stopping rule — an *internal* mechanism for deciding how much is enough. Therefore, some kind of external stopping rule has to be imposed on the system that says "this is enough", because the internal rule just does not provide an answer. Suppose you stop adding resources at any given point and ask: "Are there any further needs that we could expand to meet?" Those in the system will always respond: "Yes, of course there are, and they are as follows." So some sort of external control is needed to prevent the health-care system's indefinite expansion.

The second point about the definition of health as a state of inadequate diagnosis is that it implies a "medicalization" of the human condition. It implies that the proper response is a continuing process of taking stock of yourself and deciding that there is something wrong — of self-diagnosis or having somebody else diagnose you. It emphasizes the fragility and riskiness of normal human states — pregnancy, childhood, old age, being female — all of which require at least professional monitoring and probably intervention.

This is not, in fact, a particularly healthy state. Hypochondria is not thought of as ideal health. And if health is merely a state of inadequate diagnosis, this suggests that for the individual there may be some advantage in not taking advantage of every opportunity to get diagnosed. In other words, "if it ain't broke, don't fix it."

This leads to the third point. Be careful of over-diagnosis and inappropriate intervention. What makes you think you are sick? What makes you think the health-care system is sick? Why did the discussion begin with the presupposition that health care is a social institution that needed somehow to be cured? Now, that is not to suggest that the Canadian health-care system does not have a lot of problems. It does, as does every country's health-care system.

People can cope with their problems well, or badly — and so can health-care systems. The United States, for example, is the laughing

stock of the developed world in terms of its inability to manage a health-care system. Canada does somewhat better, and people actually do come here to find out how to do it, whereas they go to the United States to find out how *not* to do it. But the fact of variable performance does not mean that poor performers are, in some sense, "sick". Still less does it make sense to regard a system such as Canada's — which, despite its significant problems and faults, will bear comparison with any other in the world — as "sick" and needing a "cure". What it needs is careful and thoughtful management.

Symptoms of Sickness?

Why, then, is there a widespread perception that the health-care system needs curing? It seems to me that people make three types of observations about the present state of the system that lead them to talk about "crises" and "cures". Moreover, people see on the horizon several developments that make them worry about the long-term viability of the system.

One apparent symptom of the health-care system's sickness is reflected in the standard rhetoric that the system is bankrupting us, that costs are "exploding" or "out of control." The consequent alleged drain of national resources, so this rhetoric goes, is greater than Canadians can or should afford, and health-care expenditures are displacing from public budgets such worthy alternatives as universities. (The implicit assumption here, I suppose, is that universities have a *prima facie* case for their effectiveness; I am not at all sure that they have any claim for further funds, at least not on the basis of their effectiveness in teaching.) So, an out-of-control health-care system that is bankrupting the country might justify calls for a cure.

Another symptom is expressed in the rhetoric that the system is grossly underfunded and thus failing to meet the needs of the public. It is characterized by queues, overcrowding, out-of-date technology, and a physical plant that is wearing out — rather like the universities! In short, the system is falling apart, and we need to "cure" it by pouring more funds into it. Interestingly enough, some people seem to hold these first two positions at the same time, which

seems to me to be a bit of a puzzle. I suppose it is possible to believe that the system is terribly expensive, terribly ineffective, and appallingly badly managed, but it really requires some mental gymnastics to believe that it is simultaneously exploding and underfunded.

The third symptom of a "sick" system might be the enormous level of controversy that seems to surround it. Consensus about how the system should be functioning is breaking down, which suggests that it might just be in fairly serious trouble.

As for future scenarios, there are a number of people who — while feeling that the system functioned well in the past and that it continues to manage more or less adequately — see a number of things on the horizon that suggest that radical modification is required. The typical one — the one that always comes up first — is the aging of Canada's population. If it is not bankrupting us now, it will in the future. The second threat is the on-rush of technology. We have to find a lot more money to buy a lot more whiz-bang machines or the rest of the world will leave us behind. That will be terrible, it is claimed, and people will suffer unnecessarily and perhaps die in the streets because they have been denied the benefits of the latest technological wizardry. The third threat is the alleged revolution of rising public expectations. People expect the health-care system to manage and to ameliorate more and more of their lives, to do virtually everything for them, at ever-greater cost.

This collection of concerns — three in the present and three in the future — is not exhaustive, but they are the ones most often expressed about the health of Canada's health-care system. I now want to take these concerns and explain why I do not think they represent a sick system — one that requires radical modification. I do think, however, that there are some serious problems to be wrestled with, but these are problems that are common to all health-care systems in the developed world.

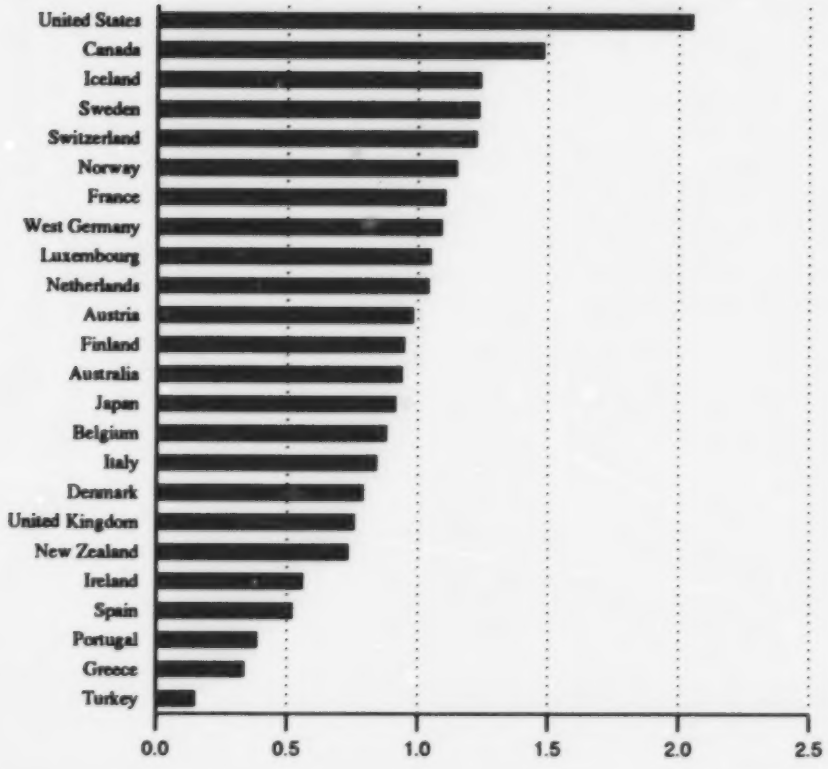
Underfunding?

Let me begin with the underfunding issue, on which there is quite a bit of aggregate information. Figure 1 shows per capita spending on

Figure 1

Health Spending in Major Industrialized Countries, 1987

($ thousands per capita)



Source: Organisation for Economic Co-operation and Development, Health Data Bank.

health in the major industrialized countries. One country, the United States, really stands out from the rest by a wide margin. It is far and away the most expensive country in the world for health care. Canada, though 25 or 30 percent below the United States, is second. In terms of the percentage of national income spent on health care, Canada is similar to Germany, France, Sweden, and the Netherlands. There is, in fact, a cluster of high-spending European coun-

tries all in the range of 8.5 to 9 percent of Gross Domestic Product (GDP), and Canada is right in the middle of it. The United States, which does not have a publicly funded national health insurance program, spends about 11.5 percent of its national income on health.

The point to make here is that the only country relative to which Canada's health-care system is underfunded is the United States. People who argue that the system suffers from serious problems of underfunding have to be saying, by definition, that Canada ought to be providing care, or at least committing resource levels, that are comparable to those in the United States. The argument that, in some way, this would move us closer to European patterns is simply wrong; it would move us further away. Moreover, several European countries are well down the list, spending 2 to 3 percent of GDP less than Canada — which is a lot of money.

Of course, poor benighted Britain is well down the list, because it is a semi-developed country with a highly developed leisure ethic. But countries such as Austria — with a very elderly population — are also low on the list of health-care spenders, and there is also a vast difference between what Sweden spends and what Norway spends, without there being any obvious differences between the two countries that would account for this. In short, then, Canada's health-care system is already highly funded compared with every other country in the world except the United States.

Even the comparison with the United States is potentially misleading, since that country spends an extraordinarily high proportion of its health-care resources on administrative overheads, on running private insurance companies and financial offices in hospitals — more generally, on pushing paper rather than pills. The hard data are scarce, but it is likely that one-half or more of the difference between total Canadian and U.S. health-care spending is accounted for by these overhead costs — *not* Americans' dramatic access to medical miracles about which we hear so much. Another significant reason for the apparent spending difference is that physicians' fees simply are much higher in the United States — Americans pay more for what they get. But that is not the same as getting more.

There is a danger of the Canadian health-care system picking up a backwash of perceptions and concerns from the United States' experience with health care. The fact is that the U.S. system is in desperate straits at the moment, and there is a titanic battle going on there. On one side are companies such as Ford and Chrysler, which are the standard-bearers for national health insurance in the United States. On the other side are groups such as the insurance companies and the American Medical Association. Both sides use, and exaggerate, other countries' experience with national health-care systems to back up their positions.

In the 1950s and 1960s, for example, the British National Health Service was reinvented as a bogey in the United States — a bogey bearing little relation to the original — and used to fend off public health insurance in that country. At the beginning of 1989, the Canadian system was being praised exorbitantly in the United States. By the summer or early fall of 1989, however, every conceivable thing wrong with the Canadian system was being trotted out and hawked through the U.S. press. So the Canadian system is now being used in the same way as was the British system earlier. Yet many European countries also have universal, publicly or quasi-publicly funded systems running at costs lower than ours. So if the United States succeeds in trashing the Canadian system, it will not really have dealt with the fact that it is still way out of line with the rest of the developed world.

A Cost Explosion?

Canada, then, spends about as much on health care as do the European countries, and that is a lot. But is that a cost explosion? Are we spending too much?

Before 1971, Canada's health delivery and payment structure was very similar to that in the United States, and this was reflected in the fact that health absorbed a steadily rising and virtually identical share of national income in the two countries. In Canada, however, that share stabilized immediately after public insurance plans were implemented, and changed very little for the next ten

years. The recession of the early 1980s reduced national income but did not affect health spending, so health's share of national income went up sharply between 1981 and 1983. Since then, it has pretty much stabilized again, and the growth that has occurred has not been in the hospital or medical sectors. In the United States, where a public insurance plan was not adopted, the upward trend has continued.

It has been suggested that the "spending crunch" on Canadian social programs came in the 1980s. That may be true in total, but, with occasional lapses, the crunch has been on health care — Canada's biggest single social program — since the early 1970s. In 1969, the Economic Council of Canada warned, in effect, that at then-current rates of growth, spending on universities and health care would absorb Canada's entire national product by the year 2000. This was followed in 1970 by a series of task force reports on the costs of health care in Canada, which all the wise types like me said were a complete waste of time and would have no impact whatever. In 1971, however, the share of health spending in national income stabilized and even fell slightly.

Canada had, in fact, invented a system in which cost explosions did not occur. That does not mean that they do not *try* to occur, or that lots of powerful people who earn their livelihood from providing health care would not like them to occur. But strong and righteous folks stand like Horatius at the bridge and hold back the voracious hordes — or most of them, most of the time — and the costs remain more or less controlled.

Canada does have an expensive health-care program relative to the rest of the world, but not unduly so compared with the wealthier countries of Europe, and over the past 20 years its costs have *not* exploded. They have grown more or less in line with Canada's national resources — except for some substantial slippage in the early 1980s, which was only partly due to the recession. Sometimes, depending on economic and electoral cycles, the brakes slip. But they *are* there; if they were not, Canada would have continued to parallel the U.S. experience after 1971.

Some additional information can be derived from examining trends in the major components of health expenditure in the two countries — hospitals and physicians' services. In the late 1950s, corresponding to the introduction of public hospital insurance, the hospital share of Canada's Gross National Product (GNP) accelerated relative to the trend in the United States. It remained at a higher level through the early and mid-1960s, until the United States introduced its medicare and medicaid plans for the elderly and poor, respectively. During that period, however, the objective of health policy was to *expand* health spending. Canada succeeded. Not until the late 1960s was containment actually an objective — after which the brakes came on.

There was also a considerable acceleration in spending on physicians' services in the late 1960s. Doctors really did very well going into medicare, although they protested quite loudly at the time, even as they were getting a much larger chunk of GNP. But physicians' concerns were justified; their share of GNP actually fell after 1971, and only returned to the 1971 level in the mid-1980s.

The central point, however, is that these components show the Canadian system's potential for some degree of cost control, a control which was not there prior to the establishment of universality. Universality is critical in health care, because what it achieves is basically a sort of consumer's co-op. It enables all the payers to consolidate themselves and to negotiate on more equal terms with the suppliers. This results in a rough stability of spending. The United States has not been able to achieve that consolidation.

Interestingly enough, the experience of the western European countries makes the same point. Between 1975 and 1980, virtually all of them stabilized the share of their GNP going to health care, just as Canada did in the 1970s. Sweden and Denmark actually brought their share down substantially.

So the reality is the complete reverse of the simple-minded argument that targeting the benefits to those most in need gives you some degree of economy. The U.S. experience — targeting benefits to the poor through medicaid and to the elderly through medicare —

shows that with such an approach there is no control at all. It just does not work. At least, it does not work to control costs and provide a decent standard of care. It works just fine for people who draw their incomes from the health-care system, and who would not have those jobs in a Canadian or European system. The more fragmented, "privatized", and "competitive" the insurance system, the more it costs to run the system itself, to pass the paper around.

The language of insurance companies is interesting. They refer, for example, to a "loss ratio", which is the proportion of premium revenue they have to pay out on claims. The government insurance system, however, calls it a benefits ratio. A high benefits ratio means that for every dollar of premiums (or taxes), 95 cents, say, is paid out in benefits and only 5 cents gets used up in overhead. To the private insurance company, that is a very high loss ratio; it means that the company is losing just about everything it takes in. From the insurer's perspective, it would be much better to have a loss ratio down around 65 cents on the dollar, and keep 35 cents of every one that goes in — thereby raising substantially the total outlay for health care (or else lowering the incomes of providers).

What happened in the United States in the 1980s — the decade of competition policy — is that there was an attempt to make the health-care system lean, mean, and competitive. In consequence, the cost of administering that system rose astronomically. These are the payments to management, to consultants, to MBAs, to actuaries, to public relations specialists, even to a few economists, but not to anybody who is actually providing care. Something in the neighborhood of 0.5–1 percent of GNP is going on those noncare costs in the United States. This is somewhere between $25 and $50 billion and perhaps quite a bit more. (Remember, a billion here and a billion there, and pretty soon you are starting to talk about real money.) In the early 1960s, Canada and the United States spent roughly similar shares of their GNP on administering health care; now the United States spends (proportionately) five to six times as much.

By definition, every dollar spent is also a dollar of somebody's income; that is just elementary accounting. So if the system is to be

changed, somebody's income has to disappear. Is it any wonder why the U.S. insurance industry does not think national health insurance is a good idea? Or, for that matter, why the Canadian insurance industry would like to "support" medicare in Canada by mobilizing more private funds? Will the United States finally get a universal system? I do not know, but it is silly for critics of Canada's health-care system to talk about a cost explosion. For a real cost explosion, look south of the border.

At the same time, however, it is important to keep in mind that just as health spending is a means to the end of health care, so care is only a means, and not always a very effective one, to the ultimate objective of improved health. The people with the best claim to being the healthiest in the world, in terms of things such as life expectancy and infant mortality rates, are not Canadians and certainly not Americans. The top performers here, as in so many endeavors, are the Japanese. Yet Japan spends only about 6½ percent of its GNP on health care — significantly less than Canada and far less than the United States. External and internal medical observers describe the Japanese health-care system as anachronistic and plain bad, and they do not seem to believe in surgery at all. North Americans all know that surgery — especially cardiac surgery — is life saving, and that more of it is needed. I do not understand this, and I do not think that anyone else understands it either. We spend too much time worrying about health care and money, because they are countable. Perhaps the real action is elsewhere.

So far, I have been dealing with the relative stability of costs in Canada, which does not support either the underfunding or the cost-explosion claim. As for the crisis rhetoric, there have been media-sponsored conferences on the "crisis in health care" ever since the system was set up. Health is news. Health sells newspapers. Crises sell newspapers. What better than a health-care crisis?

Now, health-care policy and practice is, of course, contentious, and it is going to stay that way, not just in Canada but in every other country. It *should* be contentious, because of the importance of the two things over which we are fighting: the relative incomes of some

of the more powerful groups in society, and social priorities that touch some of people's most closely held values. Contentiousness is just part of the normal way in which health-care systems run. It is probably fair to say that any health-care system that is *not* in a state of crisis has very real problems.

Future Problems?

What about the future? What about all those aging people who are going to bury us in costs that we cannot possibly afford? Everybody knows that elderly people need more health care than younger people do and that, in future, there are going to be more elderly people and fewer working-age people to pay the bills.

There has been quite a lot of research on this subject, but the seminal paper is by Jac-André Boulet and Gilles Grenier, published in 1978.[1] In that study, they assumed that health-care use rates by age group would remain constant. They then projected population size and age structure forward, aging everyone one year per year and applying the appropriate age-specific birth and mortality rates. How much impact does that have on overall cost per capita? As the population ages, costs per capita should rise even though utilization per capita stays the same at each age group, because there is a higher proportion of people in the higher age groups, which, on average, consume more health care. Boulet and Grenier found that aging does in fact have an impact on health costs, as expected, but that the effect is only about 1 percent per capita per year. This is well under the growth rate of the economy in normal times. Thus, a health-care system that grew at the same rate as the rest of the economy — that is, whose share of GNP remained constant — would more than cover the increased costs due to population aging.

---

1 Jac-André Boulet and Gilles Grenier, *Health Expenditures in Canada and the Impact of Demographic Changes on Future Government Health Insurance Program Expenditures*, Economic Council of Canada Discussion Paper 123 (Ottawa, 1978).

Subsequent studies have added extra refinements and have explored effects in subcomponents, but all have confirmed the basic result: demographic trends *per se* will not impose unsustainable, or even very large, burdens on the health-care system or on the economy. Stories of the system's impending collapse arise because people project demographic effects over the next 20 or 40 years without allowing for the fact that the economy will be growing over this period as well.

Some components of health-care use will increase much more quickly than the economy. Since the average is about 1 percent, however, it follows that others will increase much more slowly. In particular, the use of physicians' services will rise at only about 0.4 percent per capita per year — or would if only demographic forces were at work. In other words, the effect is there, but it is very small. Now, cumulate such an effect over 50 years, and it becomes a glacier. A glacier will change the entire landscape if you wait long enough, but it does not do very much over the next week or the next five years.

Over the past ten years, for example, population aging has had very little impact on the overall costs of Canada's health-care system, or on overall use, or on the overall need for resources. It has had a big impact in some areas — the rapid increase in the number of 85-year-olds has had a big impact on long-term care, and will continue to do so. But globally, there has been very little effect.

What *has* been going on is that utilization rates themselves have been shifting dramatically. It is simply not true that 75-year-olds today use the same care and costs as 75-year-olds did ten years ago. They use much more. For 25-year-olds, the increase has been much less; in some areas, there has been a decrease. But for all the older age groups, age-specific use per capita has risen a great deal.

The intensity of servicing for Canada's elderly population is also increasing dramatically, and that is showing up as the apparent heavy impact of aging. Now, it may be that people are getting sicker. It may be that other support systems are weakening. It may be that the capability to intervene and do good has dramatically improved. But the process of increasing intensity is happening *within* the

health-care system — as a result of changing criteria for intervention, changing choice of technology, and changing servicing techniques. It is not a response to demographic change. So the aging of the population *per se* is not going to create a crisis.

Looking forward 50 years from now, one can easily become overwhelmed by the magnitude of the projected demographic changes. But 50 years of cumulated economic growth rates will also produce some pretty hefty increases in this country's wealth. Now, if the environmental movement puts a spanner in the spokes of the entire economy, or if the environment itself turns a good deal nastier and the population continues to age, then we will indeed be in a lot of trouble. But it seems inappropriate to blame those potential problems on a "sick" health-care system! If all we are worried about is demography, it is not a problem.

New Technology

The advance of technology is a more complex issue. One of the principal reasons usually advanced for the dramatic increases that have occurred in the servicing intensity of the elderly is the development and application of new and expensive medical technology. Again, however, the real problem is not the technology *per se*, but the processes that determine how it gets used in practice. The issue of technology and costs is not whether it is possible to smash kidney stones with a lithotripter, for example, but whether, having bought a lithotripter, one then proceeds to try to find every kidney stone one can and crush it quickly before it gets excreted of its own accord. In other words, the technology does *not* define its own range of application. If a new piece of equipment or a new technique is used for everything under the sun, it will indeed be very expensive.

Before a new drug is allowed to come onto the market, the manufacturer has to do pretty rigorous tests to make sure that it will not kill anybody. Indeed, the manufacturer has to show that the drug actually does some people some good. An interesting feature about new medical procedures and technologies, however, is that they are

not subjected to anything like the same kind of evaluation that drugs receive. So what happens is that a new machine that goes "ping" is developed, and it gets applied all over the place — particularly in the United States. A great deal of evidence is accumulating in the medical research literature to indicate that there is a substantial degree of overutilization of high-technology procedures in that country. Nevertheless, pressure begins to build from the Canadian medical community that we too need, want, and must have machines that go "ping" — otherwise our health-care system is primitive, second class, and underfunded.

Now, the Canadian system is not necessarily better or worse because it uses less high-tech equipment. Clearly, however, more is not automatically better. If new techniques are used properly, and only in the circumstances for which their effectiveness has been clearly demonstrated, costs may well be lower.

Rising Expectations?

It is probably true that the public's expectations of the health-care system are rising. But a moment's thought should make it clear that those expectations are for *health*, not for health care as such. I do not believe that rational and sane people want health care. What people in hospital want, for example, is *out*. The reason people undergo health care — at least, those who are in a position to make their wishes known, which is another problem — is that they believe it is going to do them some good. So rising expectations are expectations for outcomes, not just for interventions.

Now, there are people for whom that is not true. There is, in fact, a clinical diagnosis — a recognized psychological problem — called Munchausen's Syndrome, which describes people who desire health care for its own sake, who counterfeit illnesses in order to get into hospitals and to waste people's time looking after them when there is nothing physically wrong with them. And one of the interesting things about the application of neoclassical economics to health care is that it assumes that people want health care for its own sake.

But apart from those who suffer from either Munchausen's Syndrome or neoclassical economics, the rest of the population wants health, not health care. If there is a problem of rising expectations, it is that people have increasingly unrealistic expectations of what health care can contribute to health and, indeed, of what is possible in health. After all, no one gets out of life alive. Such expectations can indeed lead to increased pressure on health-care services, but the solution is not to provide ever more services. Rather, better ways need to be found to let people know what the determinants of health really are, and what health care's limitations are.

At present, both the health-care system and the media tend to feed popular illusions as to the capabilities of the system — a pill for every ill, another medical miracle every week. There is no doubt that this is what a lot of people want to hear — and it sells newspapers. In the private sector, however, this activity is known as marketing — raising public expectations of the product. Indeed, that is exactly what the for-profit sector in health care spends a great deal of money to do. So, once again, what is portrayed as an external pressure on the beleaguered health-care system — rising public expectations — turns out to have at least some of its roots solidly within the system itself, and for the usual, straightforward economic reasons.

Addressing Real Needs

It seems clear, then, that a number of the diagnoses of Canada's health-care system are inaccurate or inadequate. Still, can the system not be improved? Of course it can.

First of all, a great deal more emphasis needs to be placed on the careful scientific and clinical evaluation of the things that are being done or are proposed to be done in health care. For example, the frequency with which certain kinds of surgery are performed varies radically from country to country, province to province, and even within municipalities or counties in the same province. There does not seem to be any connection between the differences in rates and the different problems of the communities that are being ser-

viced, nor do rates of mortality seem to differ much. In other words, as far as anybody can tell from really extensive studies, differences in surgical rates seem best described by the fact that some physicians believe in surgery and others do not.

For most of the history of Canada's health insurance programs, there has been almost a conspiracy of silence between physicians and hospitals on the one hand, and provincial governments on the other. Providers have said, in effect, "Give us the money and don't ask us what we are doing with it, or why — that's none of your business." Governments have replied, "Right, we won't ask you what you are doing, but we also won't give you all the money you want." And they have compromised on that position of mutual ignorance, because, of course, if you really examine what works and what does not, the results could easily be embarrassing for both sides!

My second point, which is related to the first, is that "what works" is not just a technical issue. It also integrates the preferences, needs, and circumstances of the individual patient and his or her family. Whether you want your cancer treated by radiation or by surgery, for example, will depend not only on the five-year survival rates of the alternatives — a technical issue — but also on how old you are and what you are doing with your life. Your chances of dying "up front" from the treatment will be higher with surgery, but if you survive the treatment, your five-year survival rate afterwards is better, and so may be your quality of life. If you are young and active, you might opt for surgery; if you are older, you might opt for radiation. The patient or consumer of health services who is genuinely well informed about the effects that various forms of treatment would have on his or her life might make a choice — perhaps to forego surgery, for example — that might not have seemed obvious at first.

This leads into my third point. I think there is a problem with people's long-run expectations. This is fundamentally a theological question. No one saves lives. There is no technique in the medical armamentarium that will do so, although death can sometimes be postponed for significant periods of time. We all go the same way home, and at roughly similar times, unless we are unlucky enough

to step in front of a bus. I think we need to find a way to downplay unrealistic expectations somewhat — to get away from the idea that if enough technology and money is thrown at the problem, we can all be restored to perfect health and live forever. It is just not true, and we all know it.

The medical profession, when confronted with pleas of "Help me! Make me whole. Save my aged parent, my malformed child. Do everything!" understandably responds with "Well, all right, we'll see what we can do. Let's try this new drug, or test, or diagnostic machine, or therapeutic technique." But the realities of the human condition place ultimate limits on the possible, regardless of technical virtuosity, and the urge to do everything possible may simply be an elaborate and expensive form of denial of the inevitable.

My fourth point can be summarized as suggesting that resources be matched to priorities, not the other way around. Thirty years ago, Milton Roemer formulated the law that bears his name: "A built bed is a filled bed." Right now, available capacity — personnel, facilities, technology — drives the decisions as to what to do and where to commit resources. Hospital use is determined, not by the needs of the population served, but by the capacity of the facilities available.

Similarly, as noted above, the development of new technological capabilities leads to their application, again with only a tenuous connection to the needs of the population "served". Electronic fetal monitoring, for example, is now applied to about three-quarters of all births in Canada, despite the fact that no properly controlled study has ever been able to find a (statistically significant) positive impact of this technique on birth outcomes. In fact, there is evidence that the rate of "false positives" from monitoring contributes to the current epidemic of inappropriate caesarian sections.

The leading example of capacity-driven priorities in Canada, however, is physician manpower. Our system is heavily driven by manpower decisions that were made 40 years ago, and that were wrong. The Royal Commission on Health Services (the Hall Commission) — reporting in 1964, just before the huge kink in the Canadian

fertility curve — projected fertility rates from the baby boom years and forecast a population for Canada in 1991 of 37 million. The actual will be a little under 27 million, or 10 million people less.

To provide care for this large number of new Canadians — as well as to make up for the losses of physicians who were expected to flee medicare and move to the United States — the Hall Commission recommended the construction of several new medical schools. The schools were built, and have been churning out new doctors for 15 years. But because neither the anticipated population increase nor the wholesale flight of doctors to the United States materialized, Canada's doctor-to-population ratio has been rising for years. We can argue about whether the present situation represents a surplus; certainly, medical associations seem to be uncomfortable talking about surplus doctors. But what is not arguable is that the increase is taking place, and that it is directly traceable to a population forecast — made by an economist — that was wrong.

Of course, the real problem was not that the forecast was wrong — all forecasts are wrong to some degree, and no one predicted the birth collapse. The problem was a "failure of policy", in that the decision to build more medical school capacity was never revised after fertility rates collapsed. We did not have the flexibility to readjusted the system after it became obvious that the world had changed. As a result, we now have a system in which all these physicians, in ever-increasing numbers, quite understandably and quite reasonably expect to make a living. And they regard that expectation, in the form of ever-increasing payments, as having first call on the resources available for health care. So spending priorities are driven by the need to pay for these additional doctors, who, needless to say, regard as distinctly unkind any suggestion that perhaps Canada's most pressing health-care needs might not be for 2–3 percent annual increases in medical services per capita. This situation is not the fault of doctors. They are in a box created not by them but by the people in the medical schools and provincial ministries who, in the late 1960s and early 1970s, saw the writing on the wall and resolutely turned their backs on it.

My final point relates to what is perhaps, in the longer run, the most important weakness of Canada's health-care system: it focuses the lion's share of our intellectual attention and our resources not on health but on health *care*. Now that point also underlies my comments above concerning outcomes, evaluation, trying to find out what works and what does not. But it is much broader than that.

We all know that how you live, where you live, and with whom you live make a lot of difference to your health in objective, measurable ways. Single males die sooner, on average, than males who are married. Top-ranking civil servants live longer than people who are their immediate subordinates. One study, for example, examined over 10,000 British civil servants for more 10 years and found that their life expectancies were quite clearly hierarchically graded. It also found that, while everyone had elevated blood pressures at work, the senior people relaxed when they went home. The blood pressures of lower-ranked people stayed up. Furthermore, while there were differentials in smoking behavior, mortality rates for the senior smokers were lower than for the junior ones. The chaps at the top could get away with it. And they also died less frequently of things that were unrelated to smoking. Rank is good for you.

The point is that very good quality research is starting to substantiate the long-held popular wisdom that the sort of general environment you live in, the stress you are under, and, particularly, your sense of how well you cope with stress are all critical to your health and influence your general susceptibility or resistance to specific pathogens. We are just beginning to see the causal channels, the scientific structure, that underlies these nonmedical determinants of health, and few people have yet come to grips with what might be a reasonable response. Presumably, it would be impractical to give everyone in the civil service equal rank!

Conclusion

In trying to improve, modify, and broaden the Canadian health-care system over the next decade, it is terribly important not to get tangled up in privatization debates that are just warmed over bad ideas from

the 1950s. The U.S. experience is valuable because I think it provides a very clear example of what happens if a system moves in the direction of multiple and fragmented funding sources, privatization, utilization or deterrent charges, all that sort of baggage. Canada went through all those arguments years ago, and came up with the right answers. Nothing new has been offered since.

So we have to go forward, not back. I believe that one of the reasons why people tend to dig in and throw up inflexible defenses of the status quo is because they think the other guy is actually going to throw real shells. It is possible, in the present climate, to get the sense that in some quarters recommendations for "reform" are, in reality, ignorant or ill-motivated covert attempts to roll back past successes. That is a very good way of getting people to dig trenches.

If progress is not to be unduly difficult or even impossible, the old, exploded ideas must not be allowed back on the table to waste time and polarize discussion. There are many more interesting ideas and possibilities in the world of the 1990s. It may well be a world in which less emphasis is put on illness care and a lot more is put on other ways of improving people's health, and that could actually be remarkably powerful. We do not yet know for sure what the outcome of this would be, but the evidence is starting to accumulate.

The Contributors

William D. Coleman is Professor of Political Science at McMaster University. He is the author of books and articles dealing with Quebec politics, business-government relations, and the making of economic policy. He was also the co-winner of the first prize in the Max Bell Business-Government Studies Program Essay Contest.

Thomas J. Courchene is the Director of the School of Policy Studies at Queen's University, where he holds the Stauffer-Dunning Chair, and is a member of the Department of Economics, the School of Public Administration, and the Faculty of Law. From 1965 to 1988, he was Professor of Economics at the University of Western Ontario, and from 1982 to 1985, he was Chairman of the Ontario Economic Council. He has been a Senior Fellow of the C.D. Howe Institute since 1980. Dr. Courchene is also the author of many books and articles on Canadian policy issues, including more than a dozen published by the C.D. Howe Institute. His ongoing research interests include social policy, financial deregulation, and the political economy of Canada's regions.

G. Bruce Doern is a Scholar-in-Residence at the C.D. Howe Institute and Professor of Public Policy at the School of Public Administration, Carleton University. He served as a research coordinator for the Macdonald Royal Commission and four years as editor of *How Ottawa Spends*, the School of Public Administration's widely respected annual review of spending and national priorities. He is also the author of numerous other books and articles on Canadian public policy issues, including *The Environmental Imperative: Market Approaches to the Greening of Canada*, and *Getting It Green: Case Studies in Canadian Environmental Regulation*, both published by the C.D. Howe Institute.

Robert Evans is Professor of Economics, University of British Columbia, and an expert in health economics. Among his many memberships in health-related organizations, Dr. Evans is a Fellow and Director of the Program in Population Health of the Canadian Institute for Advanced Research, and a Commissioner of the British Columbia Royal Commission on Health Care Utilization and Costs. Dr. Evans also sits on the Board of Editors of several

journals, and is the author of numerous books and articles on health economics.

David Foot is Professor of Economics at the University of Toronto. He has studied the numerous interrelationships between economics and demographics, and the implications for private and public policy. He has also focused on Canada's declining population growth and associated population aging as one of the fundamental and often-neglected determinants of the challenges to medium-term economic performance and policy. Professor Foot has written many books and articles based on his research, and has contributed to various federal and provincial commissions and task forces.

Richard Gwyn is an award-winning journalist and author, whose books — *The Shape of Scandal*, *The Northern Magus*, and *The 49th Paradox* — have attracted considerable attention and praise. He was born in England, raised in the Far East, and educated at Sandhurst Military College. Since coming to Canada in 1954, Mr. Gwyn has worked for United Press International, the Thomson Newspapers, Maclean-Hunter, Time magazine, and, since 1973, the *Toronto Star*. At present, Mr. Gwyn is the *Star*'s international affairs columnist and is based in London.

Harvey Lazar served mainly with the federal Department of Finance from 1963 to the mid-1970s, principally in the areas of international economic relations and federal-provincial fiscal relations. In the mid-1970s, he worked with the Cabinet Office in British Columbia. On returning to Ottawa, he was appointed to head up the federal Task Force on Retirement Income Policy. In December 1980, Dr. Lazar joined Energy, Mines and Resources, where he held a number of senior positions before being appointed Administrator of the Petroleum Incentives Administration in 1985. In August 1987, the Prime Minister appointed Dr. Lazar to the Economic Council of Canada, where he serves as Deputy Chairman.

Robert Z. Lawrence is a Senior Fellow in the Economic Studies Program at the Brookings Institution, Washington, D.C, specializing in international economics. He has also served as a consultant to the Federal Reserve Bank of New York, the World Bank, the OECD, and UNCTAD. Dr. Lawrence is a member of the Advisory Committee of the Institute for International Economics, the Advisory Board of the Research Institute of the Japanese Ministry of International Trade and Industry, and writes a monthly column

for the *Nikkei Financial Journal*. He is also the author of several influential books on international economics.

John S. MacDonald is Chairman of MacDonald, Dettwiler & Associates Ltd., a Fellow of the Canadian Academy of Engineering and the Canadian Aeronautics and Space Institute, and a member of a number of other associations and organizations, including the Royal Astronomical Society of Canada, the National Advisory Board on Science and Technology, and the Discovery Foundation. He has been awarded honorary university degrees, and was made an Officer of the Order of Canada in 1988.

David McQueen is Professor of Economics, Glendon College, York University. He has served with the Bank of Canada and the Economic Council of Canada, and from 1975 to 1980 he was Principal of Glendon College. He is also a member of the National Statistics Council, Statistics Canada's Advisory Committee on National Accounts, and the Family Service Association of Metro Toronto.

Robert Paehlke teaches in the Political Studies Department and the Environmental and Resource Studies Program at Trent University, Peterborough, Ontario. He is the founding editor of the journal *Alternatives: Perspectives on Society, Technology and Environment*, and the author of numerous books and articles on political studies and the environment. He currently Chairs the Peterborough Committee on Sustainable Development, a municipal-level environment-economy roundtable.

George Pedersen is President and Vice-Chancellor of the University of Western Ontario. His university career includes appointments at the Ontario Institute for Studies in Education and the University of Chicago. He was also Dean of Education at the University of Victoria, President of Simon Fraser University, and President of the University of British Columbia. At present, Dr. Pedersen is Chairman of both the Council of Ontario Universities and the Association of Universities and Colleges of Canada.

Bryne B. Purchase is a Senior Policy Analyst at the C.D. Howe Institute. He has also served as Assistant Deputy Minister, Ontario Ministry of Treasury and Economics, and as Chief Economist of the Province of Ontario. He is the author of the C.D. Howe Institute's *Policy Review and Outlook, 1991*.

Richard Simeon, recently appointed Vice-Chair of the Law Reform Commission of Ontario, is one of Canada's leading students of public policy and of

federalism. He formerly served as a Research Coordinator with the Macdonald Royal Commission and as Director of the Institute of Intergovernmental Relations at Queen's University. At present, Professor Simeon is Director of the School of Public Administration at Queen's.

Ian A. Stewart's distinguished career as a senior civil servant with the federal government included positions with the Bank of Canada, the Treasury Board Secretariat, the Privy Council Office, the Department of Energy, Mines and Resources (Deputy Minister, 1978–80), the Department of Finance (Deputy Minister, 1980–82), the Ministry of State for Economic and Regional Development, and the Department of Regional Industrial Expansion. From 1984 to 1986, he was Chairman of the Canada Mortgage and Housing Corporation, and from 1985 to 1987 he was Skelton-Clark Fellow at the Department of Political Studies, Queen's University. Since 1987, Dr. Stewart has been active as a private advisor, consultant, and writer.

Robert A. Young is Associate Professor of Political Science at the University of Western Ontario. He also on the Board of Directors of the Canadian Institute for Research on Regional Development, the Editorial Board of *Canadian Public Policy*, and is Chair of the Program Committee of the Canadian Political Science Association. He has published a number of articles on Canadian federalism, public administration, and social and industrial policy.

Participants in "The Way We Will Be: A Public Policy Conference for Journalists," Niagara-on-the-Lake, Ont., April 23–24, 1990

Elly Alboim, CBC — National TV News

Arnold Amber, CBC — National TV News

Martin Barkin, Ontario Ministry of Health

David Bazay, CBC — National TV News

Dean Beeby, Canadian Press

Julian Beltrame, Southam News

Patricia Best, Financial Times of Canada

The Hon. Allan E. Blakeney, Osgoode Law School, York University

Peter Buckley, Canadian Press

Gerry Caplan

Vincent A. Carlin, CBC — National Radio News

Bill Claiborne, The Washington Post

Joan Cohen, Winnipeg Free Press

William D. Coleman, McMaster University

Terence Corcoran, The Globe and Mail

Thomas J. Courchene, School of Policy Studies, Queen's University

David Crane, The Toronto Star

John Cruickshank, The Globe and Mail

G. Bruce Doern, C.D. Howe Institute and School of Public Policy, Carleton University

Parker Barss Donham, Reader's Digest

Robert Evans, University of British Columbia

Angela Ferrante, C.D. Howe Institute

Maryantonett Flumian, Canadian Labour Market and Productivity Centre

David Foot, University of Toronto

E. Kaye Fulton, Maclean's Newsmagazine

Marcus Gee, Financial Times of Canada

Giles Gherson, Financial Times of Canada

John Godfrey, The Financial Post

Doug Grant, CBC — "The Journal"

Richard Gwyn, The Toronto Star

Gary Hall, The Hamilton Spectator

Joe Hall, The Toronto Star

Tom Hopkins, Toronto Magazine

Linda Hughes, The Edmonton Journal

Irene Ip, C.D. Howe Institute

Mary Janigan, freelance writer

Thomas E. Kierans, C.D. Howe Institute

Robert Z. Lawrence, The Brookings Institution

Harvey Lazar, Economic Council of Canada

Rory Leishman, London Free Press

Robert Lewis, Maclean's Newsmagazine

John S. MacDonald, MacDonald, Dettwiler & Associates Ltd.

Donald G. McFetridge, Carleton University

Roy MacGregor, The Ottawa Citizen

Douglas MacKay, The Daily News

Don MacPherson, The Montreal Gazette

David L. McQueen, Glendon College, York University

Louis Martin, Radio-Canada — "Dimanche Matin"

Jason Moscovitz, CBC Radio News

Fraser Mustard, The Canadian Institute for Advanced Research

Gordon F. Osbaldeston, School of Business Administration, University of Western Ontario

John Owen, CBC — "The National"

Robert C. Paehlke, Trent University

K. George Pedersen, University of Western Ontario

William B.P. Robson, C.D. Howe Institute

Val Ross, Toronto Magazine

Harvey Schachter, The Kingston Whig-Standard

Richard Simeon, School of Public Administration, Queen's University

David Stager, University of Toronto

The Hon. Bette Stephenson

Ian A. Stewart

Sylvia Stead, The Globe and Mail

Pamela Wallin, CTV

William Watson, McGill University

Thomas A. Wilson, University of Toronto

Norman Webster, The Montreal Gazette

Peggy Wente, The Globe and Mail — Report on Business Magazine

Chris Wood, Maclean's Newsmagazine

David Wright, University of Waterloo

Robert A. Young, University of Western Ontario

Robert C. York, C.D. Howe Institute

Len Zehr, The Gobe and Mail

Members of the C.D. Howe Institute*

Abitibi-Price Inc.
Agropur, Coopérative Agro-Alimentaire
Air Canada
Alberta Energy Company Ltd.
Alberta Government Telephones
Alberta Natural Gas Company Ltd.
The Alberta Stock Exchange
Alcan Aluminium Limited
Amoco Canada Petroleum Company Ltd.
ATCO Ltd.
Atomic Energy of Canada Limited
Ayre & Sons, Limited
BC Sugar Refinery, Limited
BCE Inc.
Bank of Montreal
The Bank of Nova Scotia
Banque fédérale de développement
Banque Laurentienne du Canada
Banque Nationale du Canada
Barclays Bank of Canada
Giovanni Bastreri
Bata Limited
Bell Canada
Roy Bennett
Beutel, Goodman Company Ltd.
R.W. Billingsley
The Birks Family Foundation
The Bolt Supply House Ltd.
Bombardier Inc.
Gerald K. Bouey
Donald J. Boyer, Q.C.
Bramalea Limited
Brascan Limited
Bruce Brown
Burns Fry Limited
Business Council of British Columbia
CAE Industries Ltd.
The CSL Group Inc.
Campbell Soup Company Ltd.
Canada Colors and Chemicals Limited
The Canada Life Assurance Company
Canada Overseas Investments Limited
Canada Trust
Canadian Bankers' Association
Canadian Chamber of Commerce
Canadian Corporate Funding Ltd.
Canadian Federation of Independent Business
Canadian Hunter Exploration Ltd.
Canadian Imperial Bank of Commerce
Canadian Labour Market and Productivity Centre
Canadian Manufacturers' Association
Canadian National
Canadian Pacific Limited

* The views expressed in this publication are those of the authors, and do not necessarily reflect the opinions of the Institute's members.

Canadian Petroleum Association
Canadian Pulp & Paper Association
Canadian Tire Corporation, Limited
Canadian Utilities Limited
Cargill Limited
Cavendish Investing Ltd.
Central Capital Corporation
Ciba-Geigy Canada Ltd.
Kenneth H.J. Clarke
Confederation Life Insurance Company
Consumers Gas
Coopers & Lybrand
Glen H. Copplestone
E. Kendall Cork
Corporation du Groupe La Laurentienne
Coscan Development Corporation
Co-Steel Inc.
Pierre Côté
The Counsel Corporation
J.G. Crean
Crédit Lyonnais Canada
Crestbrook Forest Industries Ltd.
John Crispo
Crown Life Insurance Company Limited
Hugh A. Curtis
Cyanamid Canada Inc.
John G. Davis
Shirley Dawe
Deloitte & Touche
Desjardins, Ducharme, Desjardins & Bourque
Robert Després
John H. Dickey
Digital Equipment of Canada Limited
Dofasco Inc.
The Dominion of Canada General Insurance Company
Domtar Inc.
Dow Chemical Canada Inc.
Du Pont Canada Inc.
Edper Investments Ltd.
The Empire Life Insurance Company
Encor Inc.
Energy & Chemical Workers Union
H.E. English
Ernst & Young
Falconbridge Limited
Ronald J. Farano, Q.C.
John Farrow
Federal Industries Ltd.
Field & Field
Finning Ltd.
First Boston Canada
First Marathon Securities Limited
Fishery Products International Limited
Ford Motor Company of Canada, Limited
Formula Growth Limited
Four Seasons Hotels Limited
Donald T. Fudge
GSW Inc.
Gaz Métropolitain, Inc.
General Electric Canada Inc.
General Motors of Canada Limited
Gluskin Sheff & Associates Inc.
The Great-West Life Assurance Company
Morton Gross
Le Groupe Commerce, compagnie d'assurances
Groupe Sobeco Inc.
Gulf Canada Resources Limited
H. Anthony Hampson
C. Malim Harding Foundation
Hawker Siddeley Canada Inc.
J.-P. Hétu
Hewlett-Packard (Canada) Ltd.
Gordon Homer
Honeywell Limited
Hongkong Bank of Canada

Hydro-Québec
IBM Canada Ltd.
Imasco Limited
Imperial Oil Limited
Inco Limited
Inland Cement Limited
The Insurance Bureau of Canada
Interhome Energy Inc.
The Investors Group
Tsutomu Iwasaki
John A. Jacobson
Jarislowsky, Fraser & Company
Robert Johnstone
John Labatt Limited
Lac Minerals Ltd.
R.W. Lawson
Jacques Lefebvre
Gérard Limoges
Daniel Lobb
London Life Insurance Company
Pierre Lortie
Lumonics Inc.
J.W. (Wes) MacAleer
James McAlpine
McCallum Hill Companies
MacDonald, Dettwiler & Associates Ltd.
Robert M. MacIntosh
Bruce M. McKay
McKinsey & Company
Maclab Enterprises
James Maclaren Industries Inc.
McLean, Budden Limited
Maclean-Hunter Limited
McMillan, Binch
MacMillan Bloedel Limited
The Manufacturers Life Insurance Company
Georg Marais
Maritime Telegraph & Telephone Company, Limited
The Mercantile and General Reinsurance Company of Canada
William M. Mercer Limited
Merck Frosst Canada Inc.
Metropolitan Life Insurance Companies
Midland Doherty Limited
Miles Canada Inc.
Les Minoteries Ogilvie Ltée.
Robert Mitchell Inc.
Mitsui & Co. (Canada) Ltd.
The Molson Companies Limited
Monsanto Canada Inc.
Montréal Trust Company of Canada
W.D. Mulholland
The Mutual Life Assurance Company of Canada
NCR Canada Ltd.
NEI Canada Limited
National Westminster Bank of Canada
Nesbitt Thomson Deacon
Peter C. Newman
Louis-Paul Nolet
Noranda Forest Inc.
Noranda Inc.
Norcen Energy Resources Limited
North American Life Assurance Company
North Canadian Oils Limited
Northern Telecom Limited
Northwood Pulp and Timber Limited
NOVA Corporation of Alberta
Ontario Hydro
PanCanadian Petroleum Limited
Peat Marwick Thorne
Lucie Pépin
Charles Perrault
Petro-Canada Inc.
Phillips Cables Limited
Claude Pichette
Les Placements T.A.L. Ltée.

Placer Dome Inc.
Portfolio Management Corporation
Power Corporation of Canada
Prairie Pools Inc.
Pratt & Whitney Canada Inc.
Price Waterhouse & Co.
J. Robert S. Prichard
Procor Limited
ProGas Limited
Quebec and Ontario Paper Company Limited
RBC Dominion Securities Inc.
Redpath Industries Limited
Simon S. Reisman
Henri Remmer
Retail Council of Canada
Grant L. Reuber
R.T. Riley
Robin Hood Multifoods Inc.
Rogers Communications Inc.
The Royal Bank of Canada
Royal Insurance Company of Canada
Royal LePage Limited
Royal Trust
Sandwell Swan Wooster Inc.
Saskoil
Guylaine Saucier
André Saumier
The Hon. Maurice Sauvé
Sceptre Investment Counsel
Sceptre Resources Limited
ScotiaMcLeod Inc.
Sears Canada Inc.
Anthony A. Shardt
Sharwood and Company
Shell Canada Limited
Sherritt Gordon Limited
Sidbec-Dosco Inc.
Smith, Lyons, Torrance, Stevenson & Mayer
Le Soleil
Southam Inc.
Stikeman, Elliott, Advocates
Strategicon Inc.
Sun Life Assurance Company of Canada
Suncor Inc.
Swiss Bank Corporation (Canada)
Teck Corporation
Téléglobe Canada
Telesat Canada
Thomson Newspapers Limited
3M Canada Inc.
The Toronto Dominion Bank
Toronto Star Newspaper Limited
The Toronto Stock Exchange
TransAlta Utilities Corporation
TransCanada PipeLines Limited
Trimac
Trizec Corporation Ltd.
Robert J. Turner
Unilever Canada Inc.
Unisys Canada Inc.
Urgel Bourgie Limitée
Manon Vennat
Ventures West Management
VIA Rail Canada Inc.
J.H. Warren
Tom M. Waterland
West Fraser Timber Co. Ltd.
Westcoast Energy Inc.
M.K. Wong & Associates Ltd.
Wood Gundy Limited
Xerox Canada Inc.
Zurich Life Insurance of Canada

Honorary Members

W.J. Bennett
G. Arnold Hart
David Kirk
Paul H. Leman
A.M. Runciman
J. Ross Tolmie, Q.C.

Recent Publications of the C.D. Howe Institute

Howitt, Peter. *A Skeptic's Guide to Canadian Monetary Policy*, C.D. Howe Institute Commentary 25 (December 1990). ISBN 0-88806-271-0. 16 pp.; $5.00.

Wonnacott, Ronald J. *The Canadian-U.S. Experience in Auto Trade since 1965: Its Relevance for Free Trade Negotiations with Mexico*, C.D. Howe Institute Commentary 24 (December 1990). ISBN 0-88806-270-2. 8 pp.; $5.00.

Doern, G. Bruce (ed.). *Getting It Green: Case Studies in Canadian Environmental Regulation*, Policy Study 12 (November 1990). ISBN 0-88806-269-9. 214 pp.; $14.95.

Trebilcock, Michael J., and Robert C. York (eds.). *Fair Exchange: Reforming Trade Remedy Laws*, Policy Study 11 (November 1990). ISBN 0-88806-267-2. 303 pp.; $14.95.

Wonnacott, Ronald J. *U.S. Hub-and-Spoke Bilaterals and the Multilateral Trading System*, C.D. Howe Institute Commentary 23 (October 1990). ISBN 0-88806-268-0. 24 pp.; $5.00.

Laidler, David E.W. *Money after Meech*, C.D. Howe Institute Commentary 22 (September 1990). ISBN 0-88806-266-4. 8 pp.; $5.00.

Wonnacott, Ronald J. *Canada and the U.S.-Mexico Free Trade Negotiations*, C.D. Howe Institute Commentary 21 (September 1990). ISBN 0-88806-265-6. 8 pp.; $5.00.

Lipsey, Richard G. *Canada at the U.S.-Mexico Free Trade Dance: Wallflower or Partner?*, C.D. Howe Institute Commentary 20 (August 1990). ISBN 0-88806-264-8. 16 pp.; $5.00.

York, Robert C. (ed.). *Taking Aim: The Debate on Zero Inflation*, Policy Study 10 (August 1990). ISBN 0-88806-256-7. 263 pp.; $14.95.

Robson, William B.P. *Not-So-Fine Tuning: Bank of Canada Policy and Inflation since 1986*, Inflation Monitor 5 (August 1990). ISBN 0-88806-263-X. 12 pp.; $5.00.

Doern, G. Bruce. *Canadian Environmental Policy: Why Process Is Almost Everything*, C.D. Howe Institute Commentary 19 (July 1990). ISBN 0-88806-262-1. 12 pp.; $5.00.

CANADA AT RISK ?

Canadian Public Policy in the 1990s

Edited by ***G. Bruce Doern and Bryne B. Purchase***

What has economic globalization done to the efficacy of the Canadian nation-state? What is the real underlying relationship between economic and social policy? What is Ottawa's role in promoting a viable political community and a competitive economy? Where do the provinces fit? At a time of an unprecedented sense of malaise about the Canadian body politic, ***Canada At Risk?*** presents the broad-ranging views of a group of the country's leading thinkers as they tackle these and other fundamental public policy questions facing Canada in the 1990s.

G. Bruce Doern is a Scholar-in-Residence at the C.D. Howe Institute and Professor of Public Policy at the School of Public Administration, Carleton University. His recent publications include ***Getting It Green: Case Studies in Canadian Environmental Regulation*** (1990); and ***The Environmental Imperative: Market Approaches to the Greening of Canada*** (1990).

Bryne B. Purchase is a Senior Policy Analyst at the C.D. Howe Institute, and has also served as Assistant Deputy Minister, Ontario Ministry of Treasury and Economics, and Chief Economist of the Province of Ontario. He is the author of the C.D Howe Institute's ***Policy Review and Outlook, 1991.***

$14.95

ISSN 0832-7912
ISBN 0-88806-259-1

9 780888 062598